“Reserve Bank of India’s Post Policy Researchers’ & Analysts’ Conference Call”

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MODERATOR: **MS. ALPANA KILLAWALA, PRINCIPAL CHIEF GENERAL MANAGER, DEPARTMENT OF COMMUNICATION**

Moderator Ladies and gentlemen good day and welcome to the Reserve Bank of India's Post-Policy Conference Call for Researchers and Analysts. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touch-tone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Alpana Killawala from the Reserve Bank of India. Thank you and over to you ma'am.

Ms. Alpana Killawala Thank you Inba. Welcome to the Reserve Bank's Post-Policy Researchers' Conference. I will straightaway hand it over to Dr. Rajan.

Dr. Raghuram Rajan Thank you Alpana. Let me start with some initial remarks and then turn it over to questions. First good afternoon to everyone who is on the call. In the mid-quarter review today we began a change in the exceptional liquidity measures we introduced in July by cutting the marginal standing facility rate which is the effective policy rate today by 75 basis points or 0.75 percentage points. We also reduced the minimum daily CRR balance that banks have to maintain to 95% of the requirement down from 99% of the requirement. We think this will allow them some freedom to manage their liquidity. We also believe that this easing was warranted given that the external environment has improved and given that the government and the RBI have used the time since the measures were put in place to narrow the current account deficit and to ease its financing. This calibrated withdrawal will provide a boost to growth, reduce the financing distortions that are emerging in the market and reduce the strain on corporate and bank balance sheets. We will remain vigilant about external market conditions and will do what is necessary if they deteriorate once again. We have also announced an intention to return to normal monetary policy operations where the repo rate will return to being the effective policy rate and liquidity conditions need not be as tight as they currently are.

The difference between the MSF and the repo rate will be brought down to 100 basis points. At the same time, recognizing that inflationary pressures are mounting and determined to establish a nominal anchor which will allow us to preserve the internal value of the rupee, we have raised the repo rate by 25 basis points. The intent here is that when the repo rate becomes the effective policy rate, that is, when the liquidity measures, the exceptional liquidity measures are totally unwound, that repo rate should be consistent with the inflationary conditions in the economy. On net, these measures will reduce the cost of bank financing substantially today while allowing us to take an appropriately precautionary stance on inflation.

Let me also say that we do not have in mind what the next move on the repo rate should be. It will be tailored to economic conditions. The intent of today's move was to ward off escalating expectations of inflation but the pace of the disinflationary process has to be calibrated to the state of the economy and we will do so. Let us remember that the postponement of tapering is only that, postponement. We intend to use the time that we have been given to create a more bullet proof national balance sheet and to further the growth agenda which will create confidence in both our citizens and investors alike. I also announced a number of advances on the other measures that we announced in early September - on September 4th. Let me just mention one here which is that we have fully liberalized bank branching yesterday. Also an update on what we have received thus far on the FCNR (B) swap facility; we have received $466 million in the two or three days it has been operational and we have received about $917 million under swap to facility to banks in approximately the week that it has been operational. So a total of $1.4 billion in the few days that these two facilities have been operational. Let me stop there and say that we do intend to continue on the path of structural reform. We are examining a number of measures and will roll them out as and when appropriate.

Alpana Killawala Inba, can we start with questions?

Moderator Sure ma'am. Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We will take our first question from Shubhada Rao of Yes Bank.

Shubhada Rao **Good afternoon Governor.** Congratulations for a very unambiguous and clear policy statement. Without much ado, I would have one question. You have in the policy stance and rationale, etched out that MSF will continue to be the operative rate till such time that the CAD and the funding of CAD is in the comfort zone for RBI. In this regard I just had the question that when we talk of transition from MSF to repo as the operative rate, will we be looking at a certain level of CAD or the path of CAD which should begin giving rise to certain expectations on the timing of the move from MSF to repo rate as the operative.

Dr. Raghuram Rajan I don't know where I indicated it would be the CAD. My sense is the Current Account Deficit is a slow moving number and it is not an intention to direct the pace of unwinding of these exceptional measures to the actual devolution of the current account deficit. Our sense is enough measures have been put in place to contain the current account deficit to a number, we jointly with the government worked out a number of $70 billion, and we think that that should be financeable through the various measures that the government and the RBI have announced over the last few weeks. Our intent is to calibrate the unwinding of the exceptional measures more to the stability of the exchange markets and the external environment and as we experience a period of stability and a period of building confidence we will ourselves have the confidence to unwind those measures. As of now, we remain prepared in either direction but we sense that given what we have seen over the last few weeks, if the trend continues we will be able to unwind these measures.

Moderator Thank you. We will take our next question from Prasanna Ananthasubramanian of ICICI Securities.

P. Ananthasubramanian Good afternoon Governor. My question is this. In the past RBI has targeted both the overnight rate and the extent of banking system deficit as proxied by the LAF borrowing. Once we return to normal functioning of LAF with bank borrowing at the repo rate, would RBI attempt to modulate the extent of banking system deficit? And secondly would the operating procedure remain the same, i.e., buying long bonds to infuse liquidity into the system? There is a view that such purchases have kept long bond yields below market clearing levels and have also given license to government to run larger deficits, so I would like to have your views on that.

Dr. Raghuram Rajan Well, just on a nitpicking point, if we bought the long bonds that the market cleared at that level so there is a market clearing level, so I don't know what we mean by not a market clearing. May be you are saying without our entering it would be different and that's a fair point. On the issue of, I don't think the LAF has been something that the RBI has encouraged borrowing from, but going forward clearly we do need to return to normal liquidity conditions which will involve some borrowing from the Liquidity Adjustment Facility but I think that as a medium-term thought, for the RBI to be the residual funder of the system seems unwarranted. It should be the private markets that should be the residual funder of the financial system and so we have to find a way and one of the items that Dr. Urjit Patel committee is going to examine is how the operational functioning of our monetary policy framework should be altered and I presume liquidity management and this kind of funding is something that they will look at but it is not something that we are focused on in the next few weeks or months.

P. Ananthasubramanian So, just as a follow up I mean the whole philosophy of using OMO purchase of long bonds to infuse liquidity what would your views be on that?

Dr. Raghuram Rajan Well, I mean money market. I don't know whether it should be long bonds or short bonds. Money market operations, open market operations are engaged in by Central Banks across the world. I wouldn't say that is something that we should put off the table. We could debate what maturity of bonds we should use and whether we should have a significant effect in the long end and whether we should, those are all issues that are completely open for debate and I am hopeful that again Dr. Urjit Patel committee will opine on some of that.

P. Ananthasubramanian Thank you sir.

Moderator Thank you. We will take our next question from Sonal Verma of Nomura.

Sonal Verma Hi Dr. Rajan. Can you give us some sense on the nominal anchor of inflation on the basis of which the repo rate was hiked today? Because you know the last core WPI reading was actually under 2% and if the focus is sort of moving towards CPI or inflation expectations then 7.5 on the repo is actually also too low. So some clarity on that would be greatly helpful to us.

Dr. Raghuram Rajan Let me ask Dr. Urjit Patel to take this.

Dr. Urjit Patel Yes Sonal, you know the issue of what is the nominal anchor is something that we will be examining. As you know nominal anchor need not only be the inflation rate. It could be the gold standard, it could be a dollar peg so that per se does not mean that inflation index that we are following has been changed but as part of our multiple indicator approach we have looked at diverse indices, the new CPI, the CPI for industrial workers to some extent and of course the WPI. I think the NFMP (Non-Food Manufactured Products) has been used as a secondary source of information and certainly the latest readings on both the WPI and the CPI combined compelled us to take cognizance of that and therefore make adjustments on the repo rate as the Governor indicated in the morning.

Dr. Raghuram Rajan Sonal, also you must remember that at some level the output gap is significantly negative now. Of course, your views on potential output do affect what your sense of output gap is. And we know how badly measured potential output is. Nevertheless, given a strong negative output gap that does affect the level of interest rate that you think is consistent with disinflationary impulses more broadly and also I think we should remember that there are other disinflationary impulses. Of course, some inflationary impulses on the way, one of those is the harvest and the associated food prices which is going to have some disinflationary effect. On the negative side for inflation or rather increasing inflation is the pass through of fuel prices, of suppressed inflation and of the exchange rate depreciation. Given all this, our first attempt was to basically signal that we are conscious of inflation. Given where inflation is right now and given the potential sort of disinflationary impulses on the way, we feel comfortable at this point with where we are on the repo rate. Over time as we see this play out, as I said economic conditions will determine any change and at this point we think it could be either way.

Sonal Verma Just one more thing, what would be the RBI's view around intervening to build FX reserves? I mean so far RBI has followed broadly a hands off policy but will this strategy sort of change in order to like you said bullet proof our balance sheet?

Dr. Raghuram Rajan Well as I said in the earlier press conference, we will cross that bridge when it comes. At this point I think we feel comfortable with both the processes that are in place to build up reserves. Remember, the FCNR (B) as well as the as the bank capital measures go directly to our reserves. But we have to cross the bridge of excess reserves or deficient reserves and how much we want to build up as inflows start perking up when we come to that situation. Right now I think we feel comfortable with where the rupee is as well as with the processes we have in place to build reserves.

Sonal Verma Thanks a lot.

Moderator Thank you. Our next question is from Shyam Poddar of Forex Capital Services.

Shyam Poddar Good afternoon Dr. Rajan. My name is Shyam Poddar and instead of going for the interest rate and all those things I will come straightforward because I am a practitioner for last 50 years as a FOREX consultant. My question is what we are talking you have rightly done to bring the FCNR (B) on the swap route. Why don't you do the same thing for the exporter to borrow from the ECB directly for their working capital requirement as a swap route so they can repay by way of their export earnings, as it was suggested by Mr. Padmanabhan in their committee report of 6th May 2013. That the exporters may go directly to borrow from the offshore banks. It is yet to be implemented. My second question is that nobody has touched upon so far above the NDF market which is influencing directly the Indian market and Indian rupee and which caused undue volatility in the Indian market. Presently as per the estimation there is approximately $50 billion per day trade is being conducted globally for their USD INR. So I would like to have your reactions sir.

Dr. Raghuram Rajan Well, let me say something on the NDF market then I will hand over to Mr. Padmanabhan who can give you a sense of our evolving views on further swaps. On the NDF market, clearly a very large market outside helps investors outside do whatever activities they need to do but also it is to some extent it draws away liquidity from our markets and we have to make sure that we provide deep and functioning markets so there is no need to establish a parallel market outside. That said, I think I don't have very strong views at this point to offer on things like the NDF market except to say that they are certainly competition for the Indian markets and competition generally is a good thing and we should try and deepen Indian markets to draw more activity here. Let me just ask Mr. Padmanabhan.

Shyam Poddar Sir, may I follow up for this NDF issue only. When we are going for that, we have opened up for the NSE or MCX for currency future and even in Brazil and Indonesia to protect their domestic currency they have started parallelly their NDF market and on cash settlement basis. Why not we start here the OTC in the banks they can hedge because the root cause is that when there is no level playing field for the foreign investors. The peculiar point here is that rupee invoicing is being allowed and encouraged by the government. Now, the counterpart, if they don't find any level playing field to hedge their risks what is the sense of the rupee invoicing and that is why the rupee invoicing has not been taken up so far.

Dr. Raghuram Rajan I think your point is well taken. I think what you are saying is exactly what I also was trying to say which is we need to improve the competitiveness of the Indian market. We will examine restrictions that players have in entering and participating in it but that is something which we have to do once we have stability. I think at this point I don't want to make big changes in the market until we get some stability in the exchange markets. We are getting there but the issues you point to are issues we will take up. Let me turn to Mr. Padmanabhan.

G. Padmanabhan Shyam on the point of exporters being directly permitted to access his foreign currency borrowings instead of through the pre-shipment basically rather than through the PCFC route. I think in-principle the foreign exchange department has been asked by the Governor to work on further nuances in consultation as how the scheme will be put in place. So we are on the job. So wait for couple of weeks then you will hear from us.

Dr. Raghuram Rajan I think we should move ahead please, If you have further questions Mr. Padmanabhan will be happy to entertain them offline.

Moderator Sure sir, we will take our next question from Srinivas Vardharajan of Mount Nathan Capital Management.

Srinivas Vardharajan Hi Governor**.** You know one looks at the quarterly inflation expectations of data that come out from the RBI. The last one was in June which came out which basically indicated that the three-month forward inflation expectations was about 11.5% and the one year forward inflation expectation was close to about 12.25% and if you just go back up from 2008 both these measures have been pretty sticky average, averaging 11.5% and over 12%. So, my question really is, does it make sense to actually move away from a multiple indicator approach towards an inflation targeting approach, where CPI becomes the nominal anchor. And from there basically use some kind of a Taylor rule framework adapted for India kind of guide policy setting, that's my first question. My second question is, over the last four years, if you look at RBI's balance sheet, the net foreign exchange assets to net domestic assets, that ratio has kind of dropped pretty significantly. Now, if the market gave you an opportunity to correct that ratio would you kind of use that in terms of increase in the numerator there and it would also be helpful in terms of sowing the seeds of creating primary liquidity in the market, **M0** in the market, because what we observed in the last four years in the absence of FX intervention whenever there were capital outflows the domestic market had a huge reserve money shock and this could kind of insulate domestic money markets from that reserve money shock. What are your thoughts?

Dr. Raghuram Rajan On the first one, nobody said we are moving to inflation targeting with CPI as the sole index. I think that's an inference that has been drawn. My sense is that yes, the Urjit Patel committee will deliberate but we can't prejudge what they will deliberate and come up with. I think the policy discussion today is really looking at a number of indicators but importantly recognizing and this is where I agree with you that inflation has been sticky and high at the consumer level and it's creating also some problems within the economy including the reluctance to invest in fixed income assets, for example, among some segments of our population. They desire to go into real assets like gold and housing, (causing) a fall in the household financial savings rate. So it's not without consequence and to the extent that it is left untackled it could become even stickier and even more entrenched. That said, the pace of disinflation is something that we have to determine and as I have said before, the economy is very weak so there are some fairly strong disinflationary impulses already even without the interest rate adding more disinflationary impulses. So to that extent I think we have a chance at this point to try and bring expectations a little more under control or at the very least make sure that these expectations don't go out of total control, that they are controlled, contained and brought down over time. On the issue of framework, again that is precisely why the Urjit Patel committee was set up. Once they present the recommendations I think we can go and deliberate over them and come up with something that will answer some of your questions. As to the issue of net foreign assets I mean you are basically asking the same question that Sonal Verma asked earlier; which is, is there a point at which we will intervene and I will give you the same answer that in some sense we are building up reserves through these FX swaps that we have done and more than that, well as I have said, cross that bridge when it comes. Let us see the inflows coming. My own sense in the sequence of the unwinding of the measures one of the first ones we will have to unwind is by bringing the demand of oil marketing companies to put dollars back on to the market in a calibrated way. Once that is back on the market then if there is more net supply of dollars coming in, we will have to take a view on that but at this point I think we don’t have to cross that bridge.

Srinivas Vardharajan Thanks a lot. Governor just one thing is it possible for outside analyst like myself to kind of give some inputs and thoughts that one has to Urjit Patel Committee Report.

Dr. Raghuram Rajan Absolutely. I think Urjit Patel email is on the website, my email is on the website. Feel free to give us advice. We do get a lot of advice and we try and take all of it on board.

Moderator Thank you. We will take our next question from Sameeran Chakravborty of Standard Chartered Bank.

Sameeran Chakraborty I have two very small questions. One is that after this policy do you think monetary conditions have tightened or easened? And the second is that do you think that the interest rate difference of currency which RBI tried in July what is your assessment after two-and-a-half months. Has it worked and will you do it again, thank you.

Dr. Raghuram Rajan Good questions, both of them. On the first question which is, have monetary conditions tightened? I would guess the question is relative to yesterday. My guess is it depends on which end of the term structure you think is more important. Relative to yesterday the long end and has gone up a little bit but the short end has come down a little bit and I think we have to wait and see over the next few days. I wouldn’t look at the day of the announcement to get a full assessment of what has happened. Let’s look and see over the next few days. My own sense is that in a situation where you are in better control of inflation - the long end - as you gain credibility, that should also come down and to that extent as we exit the liquidity measures the short end will certainly come down but perhaps the long end will not stay the amount of increase it has had today. So in that sense I would guess that departing from the liquidity conditions we are, essentially monetary conditions are loosening a little bit but of course when we go back to normal, monetary policy will be tighter than we were on May 22nd and that's precisely the intent. There was a second question which is, was the interest rate defense successful? The counterfactual is hard to answer right?Which is what would have happened if we had not done it and I am not sure so what I will do is say that we will certainly do the research in our economic department to understand what the effects were and may be six months to a year from now I will give you the answer but at this point unfortunately I can't give you a clear answer because I really don't know what the counterfactual should be.

Moderator Thank you. Our next question is from Tushar Poddar of Goldman Sachs.

Tushar Poddar Thank you Governor. I have two quick questions. The first one is, how will the timing of the Fed tapering affect the move from the marginal standing facility to the Repo if at all? And the second one is if I can just sort of ask you again on the nominal anchor question. Is the short term nominal anchor changing from stable currency to stable inflation or not, or the nominal anchor for the short-term is still stable FX?

Dr. Raghuram Rajan What was your first question?

Tushar Poddar The question was the shift from MSF to Repo, is it being dictated by the sentiments?

Dr. Raghuram Rajan Yes, I don't think any of us has in mind the timing of tapering to govern that shift. I don't think we have that at the center of our mind and of course if the market suddenly thinks it's going to happen sooner rather than later and starts getting very ansi that might affect our unwinding but at this point I don't think it is a factor. On the issue of shift, yes in a sense and again we are talking about relatively fuzzy concepts but we sense that at this point having stabilized to some extent and when I talk about stabilization it's not the daily volatility, clearly that's still high but it's also the one way sort of movement that was going on which is another element of volatility that we wanted to stabilize. Having achieved some measure of stability and having a sense that every day we can wake up and see two-way movement in the currency, I think that we are slowly shifting to saying that what is important both for external investors as well as the internal investors in determining the value of the rupee is their sense of the long-term value and clearly some of you make projections about the current nominal exchange rate based on previous inflation and similarly I think that looking forward we have to try and anchor expectations about inflation if we are to both protect the value of the rupee but also give our own citizens a reasonable currency. So, my sense is both those factors, external factors as well as internal factors, sort of start converging once you have in a sense averted the panic based movement in the currency.

Moderator Thank you. We will take our next question from Rajeev Malik of CLSA.

Rajeev Malik Governor and your team thank you very much, we do appreciate this time, effort and patience that you and your team show. I have two quick questions. One is on the currency Rupee. Obviously we have seen a stunning rebound. Despite the extraordinary measures that have been taken to engineer part of that rebound does it surprise you or concern you that it's not necessarily an outlier compared to some of the riskier EM currencies? And secondly, would it be possible to share some thoughts or estimates as to what is the subsidy that RBI is offering for the swap facilities going to cost it? Thank you sir.

Dr. Raghuram Rajan Sure, let me start with the subsidy. I mean a quick measure would be what's the interest rate differential between let's say people are locking in five year money or four year money, interest rate differential between the five year India rate and the five year US treasury rate. My sense is, that's about 6% and we are basically saying that instead of charging you 6% plus transaction cost, etc., for that swap deal we are offering it to you at 3.5%. So, essentially at this point for the FCNR (B) swap we are swallowing 2.5% per year and that would be if we take in $10 billion, $250 million that we are subsidizing per year. On the other bank facility, the subsidy is direct which is a 100 basis points so that's if we get $10 billion then it's a 100 million a year. Large? Small? Unconscionable? I don't know. It just seems to me that to the extent that this changed or helped change expectations about the future direction of the rupee and to the extent that change in expectations is stable, I think it's not an extreme price to pay for that stability.

Rajeev Malik Actually building on just that. That even though it's considered to have played the role in altering expectations, Rupee's rebound since end of August, actually it's not an outlier compared to some of the riskier EM currencies. Is that interesting change a concern?

Dr. Raghuram Rajan So the second point you are making is that there are these external factors which have also seen to come together at the same time and yes quite possibly but to some extent at one point we were the worst according to some measures and everybody harped on that and that kind of negative view was feeding on itself and now we are little more in, I wouldn't say the middle, but we are certainly not at the lower end of the pack; but more generally I think it's important for us to move away from these stop gap measures to longer term measures to focus on improving the health of the economy that includes structural reforms. It includes fiscal policy, it includes monetary policy and that's part of the reason why I think today we took the first step towards ordinary monetary policy away from special measures with the idea of strengthening the value of the rupee not through special measures but through long-term faith in its value.

Moderator Thank you. Our next question is from Vibha Batra of ICRA.

Vibha Batra Good afternoon Governor. I have two questions on timeline. One is this guidelines for NBFC which were based on Usha Thorat Committee Report. When are they likely? And second is on countercyclical buffers and also for additional capital cushion for Systematically Important Financial Institutions. When do we expect the guidelines from RBI?

Dr. Raghuram Rajan Let me ask our Executive Director, Mr. Mahapatra, to answer at least the second question.

B. Mahapatra Now about this countercyclical capital buffer we have set up an internal working group. We are working on it and probably we will be able to put out the paper sometimes at end of this year or so. Then what was your third question?

Vibha Batra Systematically Important Financial Institutions. There is this additional capital requirement. So are you going to?

B. Mahapatra Yes, this countercyclical capital buffer will be additional capital requirement that will be spelt out in our paper maybe by the end of this year.

Vibha Batra Okay so that will include for SIFI also, Systematically Important Financial Institutions?

B. Mahapatra As you know in India we don’t have any G-SIBs, Globally Systematically Important Banks. So the Basel Committee has already prescribed capital surcharge for the G-SIBs but in India we don’t have any G-SIBs.

Vibha Batra Okay so we can assume that none of the banks would have that additional capital requirement?

B. Mahapatra Let me clarify, having said that we don’t have any G-SIBs. The Basel Committee has also prescribed a framework for D-SIBs, D-SIBs is

Domestically Systematically Important Banks. So the D-SIBs framework, we are working on that and again it will require some additional capital purchase for those who are Domestically Systematically Important.

Vibha Batra Okay sir so that will also come by end of the year?

B. Mahapatra That I can’t commit right now. We are working on that framework.

Vibha Batra Okay sir and the NBFC guidelines, based on Usha Thorat Committee?

B. Mahapatra I really don’t know. I don’t deal with that and my colleague Mr. Vijaya Bhaskar he is not present here today.

Dr. Raghuram Rajan So, we will get back to you on that one because we have a subset of the management here but let’s get back to you on that one.

RBI Response
(obtained subsequently) The draft guidelines based on the Usha Thorat Committee Report were subjected to a review in view of the continued representations received from the industry and the concerns on some financial companies unauthorizedly conducting NBFI activities without obtaining the Certificate of Registration from the Bank. The guidelines will be put out by October 15, 2013.

On the issue of additional capital requirements for systemically important NBFCs, the Bank will take a view at an appropriate time.

Moderator Thank you. Our next question is from MSV Prasad of IDFC.

MSV Prasad Good afternoon sir, thanks for the opportunity. You mentioned in your conference with the media that you are not a fan of asset purchases by Central Banks. In the Indian context some would argue that the asset purchases by RBI in recent years although done to infuse primary liquidity have run somewhat counter to RBI’s tight monetary policy stance and probably have blunted its effectiveness. Given your current monetary policy stance and your shift of focus as you put it to 'internal determinants of the value of the rupee' would you extend your dislike of asset purchases to Indian context as well?

Dr. Raghuram Rajan Trust you guys to ask me the difficult questions. Okay the short answer is this. There is a difference between asset purchases which are intended to alter liquidity conditions in the market that's open market operations. I don't see as I discussed earlier, one could dispute the tenure of the instrument being used and whether it should be long-term or short- term. A number of Central Banks typically use short-term. Some cases it's long term instruments but that is just about the amount of liquidity being infused in the market that is different from a Large Scale Asset Purchase Program, the L-SAP so to speak, which involves a substantial increase in the Central Bank's balance sheet and it's intended to alter the pricing of the asset market wide, not just through liquidity but through massive changes in portfolios of investors. Those I think are significantly distortionary in terms of asset prices and the problem is what goes up has to come down and we have seen that happening every time there is anticipation of this purchase program slowing and so I worry a little bit about the market volatility that is created by such Large Scale Asset Programs and of course we haven't seen the unwinding thus far but we have already seen a premonition of the kind of volatility that happens when the unwinding starts. So for that reason I wasn't sympathetic when they went into it and I talked about the effects on emerging markets and I think now when they come out of it we see the effects are indeed significant on the emerging markets. But that's about large scale asset purchases rather than liquidity purchases and I think there is a difference.

Alpana signals to me that this is the last question. So thank you very much everyone for being patient in listening and of course we are happy to take suggestions from you, you can email them to anyone of us and we will give them due consideration. Again thanks very much and thanks to all my colleagues who are here and who have helped in answering the questions you have.

Alpana Killawala Thank you Inba. You can close now.

Moderator Thank you very much. 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.

Manpreet Kaur Doad: I would like to know your reaction on the external debt of the country which is seen increasing YOY and the next immediate threat that we are looking after FED tapering is the maturity of the short-term debt that is about USD 93 billion dollar along with other debt maturing with approx amount of USD 172 billion by March 2014.

The demand for dollar is expected to increase and the uncertainty over tapering would surely impact the dollar supply in coming few months. Is RBI and central government considering any plan to tackle the issue?

Next, is the FED tapering talk will again revamp in the month of December. Do you think the time of two months are enough to create a firewall to face the heat?

(Question received through email after the researchers/analysts teleconference)

RBI Response: It is true that external debt is rising over the years as widening current account deficit had to be financed increasingly by debt flows. During this period, short -term debt has also risen sharply. If growing debt has to be tackled effectively, we need to take steps which could reduce the size of CAD. In this regards, steps taken to moderate demand for gold and increased pass-through of international oil prices to curb demand for oil should help in cutting the import bill. It could be observed that gold and oil together account for nearly half of the total imports. On the other hand, exports are expected to do better with likely revival in the growth of advanced economies in the near term.

During the months of July as well as August, growth in exports have been in double digits and imports have declined resulting in significant contraction in trade deficit which augurs well for the size of CAD. As such we expect much lower CAD during the current financial year.

A lower CAD particularly which is financed by non-debt creating flows, would certainly help in containing the size of external debt.

As regards short-term debt it is true that on original maturity basis, short debt amounts to around US$ 93 billion. But most of it are trade credits and more importantly, nearly half of it is not contracted debt, but relates to estimated import payments that are to be made in the next 6 months. It is also true that on a residual maturity basis, short-term debt amounts to about US$ 172 billion. Again of this nearly half, being related to trade credits, can be rolled over easily. Similarly, another 28 per cent of the short-term debt represents NRI deposits which also get rolled over or are withdrawn locally. Another US $ 5-6 billion are principal repayments due under loans received by the Government under external assistance programme which can also be easily rolled over as fresh disbursement schedule is available. Thus, in short, the size of short-term debt is effectively much lower that what appears to be.