Reserve Bank of India
Post Policy Conference Call
February 1, 2010

Ms. Killawala: Welcome to the first ever post policy teleconference from RBI. I am Alpana Killawala from Department of Communication. I have with me today Dr. Subbarao who is the Governor of Reserve Bank of India and the Deputy Governor, Mrs. Shyamala Gopinath; Mrs. Usha Thorat; Dr. K. C. Chakrabarty; and Dr. Subir Gokarn. Today's one hourconference will be largely for participants from India and abroad and researchers and analysts are the main audience of the conversation.May I now request the Governor to make a few initial remarks and then we will open it for question and answer.

Dr. D. Subbarao: Hello to everyone and good afternoon to all our listeners. We are doing this conference with researchers and analysts for the first time in an effort for the Reserve Bank to disseminate information more constructively and in order to get feedback from you. The traditional pattern used to be for us to have a press conference after the release of a policy and then to have one-on-one interviews with the print and electronic media. We found overtime that we must also have a two-way interaction with analysts and researchers who are more clued into the nuances of the policy. So, we look upon this opportunity not only for clarifying what you have to say, but also to get a feedback from you about how we could be better disseminating our analysis and also your feedback on the content of the policy.

After the policy review, we had released our press release, and I want to take this opportunity just as a curtain raiser to summarize what we said in the press statement, mainly that that the economy is showing promising prospects of growth. In the first half of 2009-2010, the growth was 7% and recent indicators of economic performance have been quite encouraging. Based on that and taking into account the Kharif prospects as well as the forthcoming Rabi prospects, we have raised the growth forecast for 2009-2010 from 6% to 7.5%.

Inflation, however, has been a bigger concern and a growing concern over the last several months. There are indications that the sustained increase in food prices is now beginning to spill over into other commodities and services as well. In the October review, we projected the WPI inflation for end March 2010 of 6.5% with an upside bias. We believe that the upside bias has now materialised. All the risks that we anticipated have unfortunately materialised. So, based on that information and our forecast or

outlook for the next few months, we have projected WPI inflation for end March 2010 of 8.5%.

A lot of analysts and researchers have told us that like other major central banks, we should also be putting out longer-term forecast of growth and inflation. We want to do that, but we believe that our analytical content is not presently robust enough, but starting with April Annual Policy or beyond that, we want to give market participants as well as analysts a longer-term forecast, not just a short-term but for the next year as well.

We have also indicated in the policy document as well as in the press release the risk factors, the downside risks of the growth and the upside risks to inflation. Those include uncertainty about the pace and shape of the global recovery; the possibility of a surge in oil prices if global recovery is stronger than expected; uncertainty about the performance of the south-west monsoon in 2010, that is next year; a sharp increase in capital flows, above the absorptive capacity of our economy; and accentuation of inflation expectations, if excess liquidity is allowed to persist.

Based on that, we have indicated our Monetary Policy Stance in the document. I do not want to repeatthat, but our policy actually comprised raising the CRR by 75 basis points and maintaining the reverse repo rate and the repo rate at the current levels of 3.25 and 4.75 percent at this point respectively. Three major outcomes is what we are expecting from this policy; first, a reduction in excess liquidity which will help anchor inflation expectations; second that the recovery process will be supported without compromising price stability; and third, that this review will mark our calibrated exit and align our policy instruments with the current and evolving state of the economy.

Finally, before I close, I want to say that we struggled in managing this trade-off between growth and inflation. We wanted to support growth, which we believe is yet to take a firm hold. At the same time, we are concerned about the surging inflation and this policy review reflects the way we have managed the trade-off. As I said earlier, we look forward to your feedback. Many thanks.

International Participants

Question: Good afternoon distinguished panel. My question is just on what is your take on the current quality of credit growth that we have been seeing in India. I mean, over the past few months credit growth has been fairly sluggish and even though there are nascent signs of pickup in credit, we haven't really seen a sharp turnaround, but given the momentum in the industrial sector, are you worried about strong turnaround in credit and how does that

sort of gets factored into your monetary policy outlook for the next six to twelve months. Thank you.

Dr. D. Subbarao: Thanks for that question. We looked at the prospects for credit growth and that you might have noticed for the week ended 15th January, the credit growth was 14.3% year on year, and for the full year, we have now reduced the target credit growth to 16%. It is true that credit growth had been more sluggish than we had expected in July and even from what we had expected in the month of October, but you would have noticed that we have commented in the policy document on this which is that first many of the large corporates are first exhausting their non-bank sources of funding, such as their own capital, from the capital markets in India, other borrowing from non-bank finance companies including some foreign investment. So, we have been told that they will come to the bank finance after that. We have done a back of the envelop calculation which you may see in the document, which shows the flow of resources to the commercial sector from both banks and non-banks. Last year, during the crisis year of 2008-2009, flow of resources to the commercial sector from both banks and non-banks had fallen. This year, 2009-2010, the results so far show that flow of resources to the commercial sector from the banking sector has declined, but that has been largely offset by an increased flow of resources from the non-bank sector to the commercial sector. So, if you put the total flow of resources to the commercial sector from banks and non-banks, it is only marginally lower than what it was last year. So, as much as we are sensitive to the decline in credit growth, it must be seen in a more complete perspective. Subir….

Dr. Subir V. Gokarn: With regard to the question about expectations for the next six to twelve months, I will tell you it is the function of how the recovery is going to evolve. We have said in the statement that recovery currently is somewhat narrow based, but our expectation in the baseline scenario is that it will consolidate, it will widen, and that will then duly impact on the flow of credit which we expect to accelerate both in quantum and across different sectors. So, overall the expectation is that, the growth rate of credit will actually pickup over the next six to twelve months. That is, within the baseline scenario for growth that we have.

Question: Good afternoon Dr. Subbarao and thank you very much for that presentation. My question relates to the interaction between fiscal and monetary policy, something you touched upon in the policy statement as well. In a way, my question takes us to the other side of the previous question which was about if private credit demand does in fact pick up this year, and as you mentioned yourself that liquidity infusion options really not available and probably additional constraints in the form of potential inflation

pressures, how do you see that playing out this year in terms of the cost of government borrowings or what is your sense about the possibility of fiscal consolidation? I noticed that in your macro-economic policy document before the policy, you had also mentioned about structural versus cyclical improvement in the fiscal situation. If indeed we are not able to get a significant consolidation in the fiscal situation, will you be concerned about crowding-out pressures on private sector credit demand this year?

Dr. D. Subbarao: I wish you would answer that question because we have said everything we needed to say in the two documents, which I believe you have read very carefully. We have done an estimate of what the government borrowing could be based on the fiscal deficit number which is in the public domain. The finance minister had indicated that the fiscal deficit next year will be 5.5% of GDP. On that basis, we believe that the absolute amount of borrowing in net terms will be comparable to the absolute amount of borrowing this year. In gross terms, it might be slightly higher because of the redemptions, and as you just recounted in your questions, there are of course going to be challenging circumstances next year in managing the government borrowing program. The most important, of course, is an anticipated pickup in private credit, second is inflation pressures being higher than they were during this year even though I note that we said in our document that inflation pressure will start abating from July onwards, butregardless, the pressures will still be higher than what they were last year and third and importantly the liquidity management measures that we had done during this year or ability to do them next year will be limited. So, yes, if the government borrowing happens to be higher than what we had estimated, there would of course be pressure on yields. You know, that is something that is the result of the supply and demand pressures, but we are hoping that we will be able to manage and that the borrowing will be as we expect it will be.

Question: Just wondering if the board members would be able to kind of give a sense of further about capital account inflows and what sort of levels is that they would get concerned about in regard to the influence of the monetary policy.

Dr. D. Subbarao: Okay, thank you for that question. On capital account flows, we have done an estimate of balance of payments for the current year, and so far as we have indeed indicated in the document, capital flows have been in line with our current account deficit and if that situation continues there is no need for any action. However, all emerging market economists now believe that capital flows are going to increase in the months ahead, and if that happens, based on India's growth prospects, there is possibility that there will be capital flows beyond our current account deficit. In the medium-term of course, it is our objective that India must

expand its absorptive capacity to absorb the capital flows, but in the short-term, should there be capital flows largely in excess of our current account deficit and depending on our expectation of the nature of volatility, we may have to take some measures towards capital control. At this time, I cannot precisely specify what measures we will take, but as you know, India has had reasonable amount of experience managing capital flows in 2006-2007. They had to do with calibrating interest rates on NRI deposits; they had to do with the costs and end-users of ECB, external commercial borrowings; and on calibrating how much FIIs can invest in government and corporate debt. Those and whatever other measures that other DMAs are doing, we will learn from their experience as well and do it, but the message that I want to leave with you is that if the situation continues as it is today, I do not believe that we need to do any active capital account management.

Question: Thank you. Dr. Subbarao, just one question on monetary policy. Now, if we were to discuss any views on inter-meeting hikes, what level of inflation do you think the RBI would be comfortable with before the question of an inter-meeting hike sort of arises, the possibility increases to see some action before the April Policy meeting. Thank you.

Dr. D. Subbarao: I am going to request Subir Gokarn, our Deputy Governor, to take on your question.

Dr. Subir V. Gokarn: Well, I think the practice is that an inter-meeting or a mid-cycle action is really a response to a completely unanticipated event.Given our expectations of how the inflation rates will pan out over the next few months ____ (audio breakage) for us to think about it, but the scenario we are working on is that inflation rate will rise till the end of March, may plateau after that for a few months and then start to come down.So, in that event clearly there is no cause for _____ (audio breakage).

Questioin: At a time when liquidity is enough so that the call rate is say close to the floor of the last corridor, you know, the reverse repo, could you explain how the transmission mechanism works as you see it for say like a CRR hike versus if the central bank was to raise the reverse repo rate?

Dr. Subir V. Gokarn: ……liquidity control measure over which we wanted some degree of predictability and therefore the CRR was deemed to be the best instrument.

Ms. Ramya Suryanarayanan: Thank you very much for this opportunity and for your time. Actually, a couple of questions if I may. One is food inflation has

been a problem in India since 2006. I mean at least it has been elevated. So, in your view is food inflation currently that is being seen entirely transient or are there more enduring demand-supply gaps in food production, has food production lagged income growth. That is one element, and the other is, just a broad question on what is the RBI's view on potential growth rate for the manufacturing sector. I mean, is it closer to 8%, closer to 9%, just some kind of an estimate like that. Thank you very much.

Dr. D. Subbarao: You know, not in this policy document but in the October policy document, we had commented on this question about the difference between the inflation in 2007-2008 and the inflation today. Both are from supply side pressures, but the earlier inflation, I am not talking about end 2006 which is because of the demand overheating, I am talking about the 2007-2008 inflation, which was also from the supply side but that was driven largely by global forces; increases in prices of oil, metals, and to some extent food from outside the country, but the inflation in 2009-2010, food inflation is largely driven by increase in prices domestically. Now, you are right that there could be some structural factors in this, which is that because of the social safety net programs of the government, because of growth itself incomes have grown in the rural areas and people are demanding and they are eating better, which is a good thing. But we believe that this current high inflation is largely a transient component driven by the deficient Kharif rainfall, the shortage of food, and that transient element we believe will even out over the next few months and the structural component as you see might remain with us for sometime until we find a structural solution to this. You are right that the demand for food will go up, demand for better food will go up, people will eat better, people will eat better quality food, and therefore, we need to be able to respond to tough shift in demand patterns. On your second question aboutmanufacturing, I am going to request Subir Gokarn to take that on.

Dr. Subir V. Gokarn: Working with an overall trend rate of growth or some potential rate of growth of around 8.5% for the GDP for the economy as a whole, it is a working hypothetical trend, but for manufacturing, there are a couple of factors that we need to keep in mind. We do not have a firm number on the sustainable rate of growth in manufacturing, but it really is the function of capacity being created both in production and in infrastructure which is so particular to manufacturing. One indication we have now on capacity is that we do a survey of capacity utilization and the number that we got as an input into this policy is on the rise clearly. We have seen that increase over the last two to three quarters. It is not near at what we would consider a cyclicality based on our five or six years of analysis, but is gradually approaching that. So, in a sense that is an indication to us that the anufacturing sector is starting toapproach its capacity

constraint and clearly from a stability management viewpoint, that is an important input into our decision making.

Question: Right. So, the overall growth you said 8.5%, is it?

Dr. Subir V. Gokarn: That you could say,it is a sort of a benchmark for our output gap analysis.

Indian Participants

Question: Just a question on incremental lending. Around 42% of incremental lending for the year has come from infrastructure sector. So, do you expect banks to hit their exposure norm limits on the sector and what is your medium-term view on the policy on exposure norms?

Dr. D. Subbarao: I am going to request Usha Thorat, our Deputy Governor, to please answer this question, Amit.

Ms. Usha Thorat: Yes, you are right when you say that the year-on-year credit growth to infrastructure has been quite significant and banks have actually increased their lending to infrastructure to almost 9.3% of their total credit and of this the power sector is quite significant.Now, there is this headroom in the existing exposure norms both in regard to single borrower exposure and also in regard to group borrower exposure for many of the banks. Now, clearly the way forward is really to resort to a number of other ways in which it is possible to meet the requirements of infrastructure without actually violating or going beyond these exposure norms and there are already ways to do it including syndication, corporate bonds, securitization. So, these are some of the ways in which it will be possible to meet the requirements of infrastructure.

Question: Hi, thank you. Good afternoon. I have two questions. First, on the sequencing of the policy exit, basically by choosing liquidity for us and rates later there will essentially come a turning point where the overnight rates moves up by 150 basis points towards the repo rate corridor. So, I wanted to understand that given the uncertainty on global liquidity flows and private sector credit needs, why our preference was given to the withdrawing liquidity first rather than gradually raising the cost of liquidity through rate hikes, and second also wanted to get your thoughts on what tools the RBI could use to manage the government borrowing without injecting more liquidity which is the case in doing OMO buyback and MSS unwinding? Thank you.

Dr. Subir V. Gokarn: To answer the first question. I have already answeredthisin response to the question about transmission mechanism. At this point our perception was that the real threat in terms of broad

basing the inflationary pressures was the amount of liquidity in the system which is definitely something we believe would drive the expectations and so we wanted to get as much of it out as possible. The decision to increase interest rate in anyway was really a function of or can be seen as a function of a greater level of confidence in the recovery in its widening and in its consolidation and so that is certainly something we are waiting to see. We believe that is the baseline scenario that, that will happen, but we thought it was too early to nail it down. On the other hand, the certainty of liquidity extraction was something which in fact had to be done at this point.

Ms. Sonal Varma: Second question on the government borrowing.

Ms. Shyamala Gopinath: On the government borrowings, of course, there is not much headroom for MSS unwinding as such this year. There is not much of MSS actually outstanding, and of course, our OMO operations will depend on the liquidity conditions that areprevailing, although we do have some scope for other forms of securities market operations.

Question: Hi, good afternoon. Last year, the borrowing program of the government could pass-through smoothly without impact on interest rates courtesy active support from the RBI and lack of credit demand. What factors RBI will evaluate while conducting or providing support to this year's borrowing program?

Ms. Shyamala Gopinath: I mentioned, this year's borrowing program management would really present a lot of challenges to the RBI, and we have to of course wait for the budget before we jump to any major conclusions. Well, as far as the impact on lease are concerned that is a function of supply and demand for funds and the liquidity conditions that exist as we do the borrowing program, but like we did last year in terms of the different instruments or in terms of maturities, looking at the appetite that the market has, we would work closely with market's participants and calibrate the government borrowing, of course in consideration with the government.

Dr. Subir V. Gokarn: I would like to add a point here. Last year, sequencing was a critical factor. We anticipated that the demand for credit would pick up if the recovery were to take hold and so front-loaded we have had borrowing program at a time when demand for credit was not putting a pressure on the banking system. So, that was the critical factor. Now, incremental demand for credit is essentially coming from the commercial sector. I think probably we have to look at sequencing again and make a judgement based on how credit growth itself or demand for credit would play

out and try and utilize any opportunities we have in terms of sequencing.

Dr. D. Subbarao: To all the others who are listening and who have concerns about the government borrowing program next year and how the Reserve Bank might manage that, we have said all that we can possibly say with the universal knowledge we have at this time. This year, 2009-2010, circumstances were different as Subir has just mentioned. Next year, circumstances are going to be different from what they were this year. There is going to be greater pressure certainly from the private sector credit demand, and government borrowing even by current estimate is going to be roughly of the same size. So, we will have to manage that. It is not possible for the Reserve Bank to really come out with a plan of action any more, in any more granularly than we have at this time. So, please understand, I know you people are quite curious and anxious about what we might do. We certainly value your feedback, but we have nothing really more to say at this time on this.

Question: Sir, one thing which we have noticed especially last year because of the increased sized of borrowing program, there was a change in the benchmark security and in the process the benchmark security kept on changing at virtually every quarter and it resulted into, you know, higher yields being demanded as these securities moved away from benchmark security. Will RBI try to handle this benchmark security in a slightly different manner this year?

Ms. Shyamala Gopinath: Yes, we welcome your comment, and this is in our radar already in terms of how we manage our futures issuances particularly relating to benchmarks.

Question: Thank you. Governor and the top team at the RBI for taking the call and also want to give one feedback that I think it is the most lucid, simple and well written document than we have ever seen from the RBI. Just wanted to have a question on the global environment which is changing every week and now and with the Dubai crisis surely I think the global growth is much weaker. My view is that that you have a local worry on the inflation and on the other side you have the global interest rates which are going to remain around zero, and how does the RBI going to fine tune both the areas? What kind of importance we will give to the global scenario while deciding an interest rate policy locally?

Dr. Subir V. Gokarn: The global scenario clearly enters into our calculation. We have to make some assessments of what the situation is going to be over the next year or so, and that is why we laid outthe document with our global assessment. We have reported on the IMFrecent forecast, that is one input into our overall assessment.

I think the concern that you are probably trying to get at is whether persistent global liquidity combined with tightening done hereis going to affect capital flows? As the Governor had mentioned, we are very watchful of capital flows. So far, they have not posed serious challenges, but if they do then there will be looked at and we are agnostic in terms of our use of instruments. It is really a question of whether specific instruments that we have available with us will serve the need from our end, but for the moment, this is not let us say in active consideration because the pressure has not been large enough or strong enough to warrant such consideration

Question: I have two questions. First is on the inflation front. In the Indian context, we suffer two major issues of inflation, the first being that we have very inefficient transmission mechanisms especially for food and oil prices. A hike in the food and oil prices essentially impacts the fiscal deficits first and then over a period of time it impacts the inflation. The second is the service part where the service is kind of misrepresented in the inflation and therefore the real estate prices and so on are not kind of reflected in actual form in the inflation numbers. So, I want to understand what kind of views RBI take because of this inefficient transmission of especially the service sector, oil and food prices over inflation?

Dr. D. Subbarao: Thank you or asking this question because it gives us an opportunity to clarify. WPI inflation number is the best known and most widely used, but we have said several times the Reserve Bank looks at not just the WPI inflation but we look at the four CPI indices and we look at a host of other indicators. As some people in RBI keep telling me ours is a multiple indicator approach, which includes indicators beyond inflation. Now, you are right that services do not enter WPI, but they enter CPI and that is one of the reasons for the divergence between the CPI and WPI. The other reason for divergence is of course the higher weight for food items in CPI versus WPI. I have also been told that some commodities are better represented in WPI. For example, metals are there in WPI, they are not in CPI. So, we are aware of all this. In fact, over the last two years, since this divergence between CPI and WPI has widened we have been sensitive to tracking both the trends in WPI and CPI,studying the reasons for divergence and factoring in those inferences in our policy calculus. I am not sure if I answered your question, but I thought I should disseminate this information.

Question: Sir, I was especially concerned about the food and oil prices which does not get reflected immediately but over a period of time, so in a rising oil price scenario, the inflation is to some extent understated. So, does RBI take that into account before, you form the policy?

Dr. D. Subbarao: Yes absolutely. We most certainly do. I can't remember at this time whether we actually put that in the document, but I recall, I said in the press conference that there is an amount of suppressed inflation because of there being no pass-through for oil prices, coal prices. So, even as there is no pass-through,those pressures will be felt and is an expectation that those pressures will be felt down the line. So, we do certainly take that into account, and I want to thank you for asking this insightful question.

Question: Sir, I have one more question, if you can?

Dr. D. Subbarao: Okay.

Question: This question is not related to the monetary policy, but it is more to do with the mutual fund. I represent the mutual fund. Over the last few quarters, we have seen some comments by RBI on banks' money invested in mutual fund schemes. There is a bit of confusion about what is the expectation of RBI on that. Can you please clarify your views on that sir?

Ms. Usha Thorat: Because of the excess liquidity in the system and the tax arbitrage that is available to banks and to any investor in mutual funds, what had been happening is that quite a bit of the excess liquidity has been parked in liquid mutual funds or in liquid plus mutual funds. In fact, the amounts have been significant enough for us to have a look at what these funds and how these funds are being deployed. We do find that a significant amount in fact returns back to the banking systems through the CBLO, market repo, and also through the CD. The essential issue here is really the kind of a systematic distortion that can happen either because some of the funds which the banks are deploying in mutual funds are going for purposes over which the credit underwriting standards may not be that stringent or it could be arising out of certain asset liability mismatches in the mutual funds' own deployment. So, that at a time when there is a little bit tightening of liquidity and there is a withdrawal of funds from the mutual funds by the bank, it should not happen that the entire thing becomes illiquid or difficult to withdraw and there is a fall in value. So, this has been the concern, either from banks which are excessively dependent on mutual funds in terms of raising funds and the rollover riskor banks which have actually invested a significant amount and what would happen if they withdraw suddenly. And so, we did sensitize the bank's management,and I think most banks have reviewed their policies and you must have yourself seen that there has been a significant reduction in the amount of funds which banks have deployed in mutual funds and I think we will soon see some kind of a correction there.

Question: If I could have the overall view of RBI on the asset quality issue of the banking sector and especially within the restructured loans

and secondly if RBI has an internal assessment about how much proportion of restructured loans do you see, can potentially slip into NPLs over the next 12 to 18 months. Thank you.

Ms. Usha Thorat: Yes, this has been a question which had been raised.There has been some increase in non-performing assets, but the banks have also got adequate provisions and also with the increased provisions that we have asked to give, I think this is quite manageable. As far as restructured loans are concerned, here we have been in fact asking the banks ourselves as to what is their expectation of how much of the restructured loan actually slips into the non-performing category. From the initial reaction, it does seem that it would not be a very significant percentage, but I think we would be able to take a better call on it after March-June when most of the initial moratoriumthat was given for such loans would be coming to an end. But our own initial feeling and response from banks is that in fact if this restructuring had not been done, then many units would have really got into difficulties and perhaps the slippage would have been higher. Also the general percentage of slippage has got reduced because of the overall recovery in the economy, which has acted as a very positive factor.

Question: Good afternoon. My question is with regard to the government borrowings about which there is a lot of concern and you have also mentioned it as a key risk for the coming years, but purely as a theoretical question I would like to ask that if the risk does play out and the fiscal deficit remains higher than what you are expecting, then how would monetary policy react and there should be one view that interest rates, monetary policy should be tightened even more to offset for the easier fiscal policy and the other view could be that, you know, that would lead to a further increase in interest rates, more than what is justified. So, which way would monetary policy go in case of such a situation?

Ms. Shyamala Gopinath: As you would know in the past, yes we didn't have this fiscal deficit dominating monetary policy. This was partly on account of the fact that the Reserve Bank could fund government directly by, taking on the private placements or even participating in the primary market. So, now that is not there anymore after the FRBM. I don't think we can really go back to what it was earlier and therefore we need to manage the liquidity, manage the government borrowing and manage to get the productive sectors get enough credit. In this new scenario where Reserve Bank would not beexpanding money supply to contribute to the government securities directly. So, this is a slightly different scenario that we are now facing,and we already explained that this is a challenging situation this time and that we will calibrate our operations, our instruments and various other options that we have to manage this program.

Dr. D. Subbarao: Apart from what Shyamala said, I want to say that, you have in fact put in better words our policy dilemma, which is that we need to tighten in order to manage inflation, but we also have to be very mindful of the fact that growth is yet to consolidate. Now, you know, people have told me that part of the tightening is in fact necessary not only for managing inflation but in order to manage the inflation trajectory because if we.do not tighten now, there will be demand side pressure…. So, we need to manage this over the next few months carefully, so that growth takes place in a manner sufficient _____ (audio breakage) the demand side pressures.Yes, there is going to be government borrowing program, and it is not possible even for the government to scale down the fiscal deficit abruptly _____ (audio breakage) but these are realities and challenges of our economy. As Reserve Bank,we do not have a magic wand and we are struggling with this.

Question: Thank you sir for taking your time out and taking this novel measure. My question is that in the monetary policy also it has been emphasized that the growth has not found its foot as yet, in the sense if you look at particularly from the demand side, the GDP which you have pointed out, the growth has been much more subdued then from the supply side. In fact, if we knock off the government consumption part, the trailing 12-month growth rate of India's GDP is 3% which is the lowest since the quarterly data on GDP started getting published. So, what is your view on that and a related question. We have generally seen that the liquidity condition between December to March is much tighter both in terms of the measure of last liquidity and also the interest rate structure in the money market. By raising the CRR by 75 bps, there is a clear possibility that the short-term interest rates will go up and from a growth perspective since lower interest rates is the only way we can induce investment and leverage consumption, how RBI feels about it? Thank you sir.

Dr. D. Subbarao: I will answer your first question which is about how much of the current growth is driven by the fiscal stimulus in particular public expenditure. It is true that 2008-2009 for which we have some numbers, growth was driven largely by government consumption expenditure. That was the fastest growing component, and the contribution to GDP was also significantly higher, but we have I believe mentioned in the most recent document that starting with the second quarter of 2009-2010, private consumption and private investment have picked up. So, we are not as critically dependent on fiscal stimulus as some of the more advanced economies. Sure we are dependent, but less dependent I believe than the advanced economies. So, I believe there is a greater window of opportunity to at least begin the process of winding down the fiscal stimulus in line with the reversal of the monetary accommodation, and we believe you have done the numbers very well because

you have put out that number of 3% trailing growth, so I suppose you understand this, but going forward, we believe that gradually public expenditure can yield to private consumption and to private investment.

Ms. Alpana Killawala: Actually, we are running short of some time. Thank you very much for your interest and we will hope to continue this initiative for a longer, next policy and onwards. If any questions are left unanswered, which I am sure thereare because we have some more people queued in, please send us an e-mail and we will try and respond to the e-mail. Thank you very much.

Dr. D. Subbarao: On behalf of the Reserve Bank and all of us assembled here, I want to thank all our listeners. It has been a very useful experience for us. As you know, we are doing this for the first time, so it is also somewhat of a novel experience for us, but we hope to continue this and refine this in course of time. Thank you.