

**Report on the Interactive Session with Dr. Subir Gokarn, Deputy Governor,  
Reserve Bank of India on 22<sup>nd</sup> March, 2010**

The Chamber organized an Interactive Session with Dr. Subir Gokarn, Deputy Governor, RBI on 22<sup>nd</sup> March, 2010.

Welcoming the Chief Guest, Mr. K.R. Girish, President said that the Chamber has been working very closely with RBI Bangalore Regional office and has been actively participating in all the programmes and regularly giving inputs on various policy measures which have been brought out by RBI from time to time for the benefit of Industry and Trade. He drew the attention of the Deputy Governor on the inability of Indian firms to raise funds abroad including trade credit that in turn puts pressure on the domestic banking system for more credit. He said that although the Central Bank has taken some measures to address this issue, it is being felt that it has not been percolated to the ground level. Hence he suggested that RBI should ensure creating a conducive environment to ensure availability of additional credit to the Industry. He also brought to the attention of the Deputy Governor on the cautious attitude of the Banks with regard to sanctioning of new loans even to credit-worthy projects despite the Central Bank flooding companies with low interest capital. This has led companies deferring their investment plans and has created uncertainties amongst the consumers. He requested RBI to address this issue effectively.

He then requested Dr. Subir Gokarn to address the gathering on **"Global Financial Crisis and India: Policy Responses and Way Ahead"**.

In his address, Dr. Subir Gokarn said that the emerging economies such as India, China and Latin America have come unscathed from the recent global financial crisis successfully although they were not as severely affected as US, Europe and Japan. He also outlined on the various measures initiated by RBI to address this crisis by effectively bringing down the interest rates through its monetary policies which gave cushion to industry. He broadly pictured the emergence of global recession since the early June 2008 and how it got unfolded in September, 2008. There was global liquidity crisis due to heavy payments made by financial institutions to support the Real Estate with high interest rates. This triggered inflationary process and hence the Government was forced to take necessary steps.

Dr. Subir Gokarn also mentioned about the Food inflation which is a major cause of worry to the Government. In the last three months, there has been significant change in the drivers of inflation. Till November 2009, almost entire inflation was driven by food articles and food products, Dr.Gokarn added. He further said that its contribution to

overall inflation declined to 52 per cent in February, 2010, while that of all other commodities, which was -0.4 per cent in November 2009 increased sharply to 48 per cent in February, 2010. The contribution on non-food manufactured products has risen from -2.9 per cent to 19.3 per cent. Dr. Subir Gokarn felt that inflation is no longer a supply side phenomenon.

He said that the economic recovery is gaining momentum and it is clearly evident from the sustained increase in bank credit and the resources raised by the commercial sector from non-bank sources. On the issue of Capital Account Convertibility, Dr. Gokarn said that RBI is reworking the roadmap for achieving fuller capital account convertibility. He said that India is moving slowly towards achieving full capital account convertibility – or the full float of Indian rupee – is dynamic and adjusted depending on the global developments. He further added that there has been some disagreement in not having it completely open because most of the banks are looking for some safety net and the Central Bank is monitoring the situation and waiting for the opportune moment.

On the issue of SME financing he said RBI has received the Report of the Working Group to Review the Credit Guarantee Scheme of the Credit Guarantee Fund Trust for Micro and Small Enterprises and will be coming out with its recommendations soon. On the issue of financial inclusion, Dr. Subir Gokarn said that RBI has got a prospective agenda to facilitate access to financial services and timely and adequate credit to the vulnerable sections of the Society by bringing all banks on Board thereby evolving a system which should be acceptable to all as it has been adopted in Thailand.

Following the Address of Dr. Subir Gokarn, Mr. A. Subbarao, Group CFO, GMR Group raised the following issues for the attention of the Deputy Governor:-

- (a) Rate hike impact on the Monetary Policy
- (b) Relaxation of ECB Norms i.e. allowing ECBs to fund on Rupee payment terms
- (c) Move to base rate concept
- (d) Adequate availability of funds to SMEs

Dr. Subir Gokarn answered to the above queries raised by Mr. A. Subbarao. He also requested the Chamber to submit a note on the ECB norms and the Base Rate Mechanism and requested the Chamber to have an Interactive Session with the Local RBI on the issue of Financial Inclusion.

Mr. H. Sudhakar, Chairman, Banking & Finance Expert Committee, BCIC in his concluding remarks he thanked the Deputy Governor for sparing his valuable time at short notice and also for sharing his views on this very important subject. He complimented on the various measures undertaken by RBI to stimulate the Indian

Financial system despite the crippling impact of the global meltdown. He hoped that the Government and RBI will take necessary measures and steps to contain inflation to a moderate level. He particularly drew the attention of the Deputy Governor on the issue of capital account convertibility and said that India has joined the big guns of the global power structure and capital account convertibility is obviously one area that will be viewed with great interest by one all and urged RBI to address this issue at the earliest. He wholeheartedly thanked all the Members and Sponsor for making this event a grand success.

The Interactive Session concluded with Vote of Thanks to the Chair.

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