“Governor’s Panel”

Transcript of the comments by Former Governors Dr. Bimal Jalan, Dr. Y V Reddy and Dr. D Subbarao, Reserve Bank of India

Dr. D. Subbarao: Thank you very much Usha. We have two distinguished former Governors on the panel. As you all know, -I've just become one. One of my current challenges is to meet the exacting intellectual standards for ex-Governors that these two gentlemen have set.

Over the last day and a half, we discussed a number of issues relevant to central banking from an international perspective. What I am planning to do in this panel discussion is to try and look at those issues from a somewhat Indian context.

For analytical clarity, I will divide the session into three separate segments;

- Monetary Policy;
- Macro-Prudential Policy and Financial Stability;
- Capital Flows and External Sector Management.
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If time permits, we will also move on to Fiscal Sector and Global Cooperation.
Let me start with Dr. Jalan.

Sir, the question that everyone in India wants to ask you, and the question to which you will not give an answer, is “when will you finalize the recommendation for bank licenses?" I am tempted to ask you that myself, but I will not.

Since that question is out of bounds, let us start with the monetary policy framework. There was discussion yesterday that central banks should move away from their single minded fixation on inflation. Joseph Stiglitz went as far as saying that there is no empirical evidence that low and steady inflation has in fact supported growth. Regardless of that theory and empirical evidence, post-crisis, central banks are moving away from the single target-single instrument framework to multiple target-multiple instrument frameworks. They are typically accepting broader mandates; they have moved away from rigid inflation targeting to flexible inflation targeting.

Curiously, that’s something that we have always had in India. The Reserve Bank has, in fact, taken pride in the fact that it has a flexible mandate that takes care of price stability, growth and financial stability in a flexible and constructive manner. This framework has gone under the banner of ‘multiple indicator approach’ which is enshrined in the Reserve Bank under Dr. Jalan’s name. In the five years that I was there, people told me that this multiple indicator approach that the Reserve Bank has followed has served the economy very well. Whenever I questioned it, they reproached me saying that I shouldn't touch it if only because it has stood the test of time.

Now there is the Urjit Patel committee in session, reviewing the monetary policy framework. Although I have no insider knowledge, the informed buzz and expectation is that the committee is going to ask for a more definite objective function for the Reserve Bank. They may not recommend strict inflation targeting, but may demand greater focus of the Reserve Bank on inflation. The justification for this, something that I've heard several times during my tenure, is something like this: the lack of a well-defined and transparent objective function for the Reserve Bank's monetary policy is leading to confusion, is leading to too much discretion, resulting in lack of accountability and possibly even costly policy errors.

So, on the one hand, there's the multiple indicator approach, which we believe, has served the economy very well. On the other hand, there is also a felt need for reviewing the monetary policy framework that is better defined, transparent and contestable. But in moving towards something new, there's a concern that we might barter something that's served us well for something that is untested. Since the multiple indicator approach is enshrined under your name, what's your view on this predicament, sir?

Dr. Bimal Jalan: Thank you Subba. Let me also thank Joseph Stiglitz and Usha for organizing this particular event at this period of time. It is most important for us to have a clear view on what we want from the financial sector in terms of macroeconomic stability, growth, inflation and so on, and I won't comment on all that part. On the general point of transparency and Reserve Bank's objectives, I don't personally believe in targeting inflation, particularly in developing countries, like India, where 60 percent of the Consumer Price Index (CPI), which matters more to the common person, is from food prices.

My main issue just now is - what is going on in the global economy and where are we? If we look around, there is the US with large fiscal deficit, large trade deficit, with so called Quantitative Easing (QE) for a long time. Now some bright spots are emerging that growth will be plus and inflation instead of being zero could be zero plus, one percent or something like that. Then you look at Europe, although there are some signs of recovery, but we yet don't know where they are. Look at the emerging markets, earlier word being used was BRICS (Brazil, Russia, India, China and South Africa), now it is MINT (Mexico, Indonesia, Nigeria and Turkey). So, China and India are out of the picture.

So, I believe Subba, that the traditional thinking that we have about the function of Central Bank, divisions of functions between the Central Bank and the fiscal authority, growth, inflation and all that is now outdated. The situation to my mind, and which requires consideration in this very distinguished gathering of people is that the entire economics of growth or the of economics of inflation is going through a transition which is similar, though different in terms of magnitude, to the Great Depression of 1934, when we got a crisis and then assembled at Bretton-Woods to tackle the crises through global financial collaboration. What I am essentially saying is that today we need Bretton-Woods II. It is necessary and desirable for major countries of the world to have a global approach to promote financial stability with growth. In G20 or G10 we all get together and issue a declaration at the end of it that we should look into it, or that we should collaborate, but nothing actually gets done.

And I recall, as I am sure would others, the earlier orthodox approach to monetary policy and capital account convertibility. The first day I walked into the Reserve Bank of India in 1997, there was the East Asian crisis and a big attack on rupee. We had to take unorthodox measures and we were criticized. I still remember it so vividly. There was an IMF conference in Hong Kong and they were trying to adopt capital account convertibility as the central theme, just as current account convertibility was introduced in 1994. The view was that capital account convertibility should also be obligatory in all developing countries. Now, the same IMF today is talking about how capital controls are necessary. India in 1997 introduced the principle that any money coming into India will be fully free to go out, but we will control what comes in- no short term borrowing or rather limited short term borrowing, only long term capital flows. Similarly, in exchange rate management, today managed exchange rate is believed to be desirable; everybody is managing. To manage the impact of Asian crisis, we started flexible but managed exchange rate. At that time, we were criticized on this aspect also and were advised by IMF itself that exchange rates should either be fully flexible or fully fixed. In other words, managed flexible exchange rate was not considered to be desirable. The reason why I am mentioning this is simply that the global financial situation as we have also seen in the recent period can be volatile and unpredictable. As such, it is highly desirable to have a flexible approach to handle the problems in the light of a particular country's circumstances. Policies, therefore, have to vary among different countries and the only test whether correct actions were taken or not, is whether policy has been successful in handling the problem and not whether it conforms to prescribed dictums of international institutions.

And I recall, and I am sure as would others, the orthodox approach to monetary policy and capital account convertibility. I was there in 1997, the first day I walk into the Reserve Bank of India, there was the East Asian crisis and a big attack on rupee and we had to take unorthodox measures and we were criticized. I still remember it so vividly. There was an IMF conference in Hong Kong and they were trying to adopt capital account convertibility as the central theme, just as current account convertibility was introduced in 1994. Joseph may recall, he may have been there too, that capital account convertibility should also be obligatory on all developing countries. Now, the same IMF today is talking about how capital controls are necessary. India in 1997 introduced the principle that any money coming in will be fully free to go but we will control what comes in-no short term borrowing or rather limited short term borrowing, only long term capital flows. Similarly, in exchange rate management, today managed exchange rate is a good thing, everybody is managing. In India to manage the impact of Asian crisis, we started flexible but managed exchange rate. Those who have studied history and theory said this is not correct and that you should either be fully flexible or fully fixed, but managed flexible is not good. The reason why I am talking at this length is that we are speaking of a period which was not stagflation or stagnation but it was a period of pre-crisis stage in the world economy and there were no global rules of the game as it were. Sorry to be speaking at length and I think I answered the question.

Dr. D. Subbaro: That’s fine. You have actually answered not only the question that I'd asked, but also questions that I was planning to put to you later in the session. We will, of course, come back to many of these questions. Sir, Dr. Reddy, what about you? Specifically, on the Urjit Patel committee? Do you think we should move away from the multiple indicator approach, a somewhat discretionary policy objective of the Reserve Bank, to a more well defined and more transparent objective function?

Dr. Y.V. Reddy: Actually I assured myself that I will not speak anything about India but I don’t know much about the rest of the world. So, I informally assure everybody, that I will be as abstract as possible. I will strike a balance of being abstract enough but relevant to the extent possible. I would ask the first question – globally, those who practiced a sort of purist approach - there is nothing like 100 percent - but a relatively purist approach to inflation targeting, are having second thoughts. I think that is established due to the experience with global crisis. So, we should ask ourselves: should we have second thoughts about what we were doing_which was not purist? So, should we move in the opposite direction compared to the rest of the world? That's basically the question; we should find an answer for that. What is the reason if we have to move away?

The second question is, - what is the purpose of inflation targeting that we are now advocating for India? Can we sell it to the people in India that government is not responsible for inflation and Reserve Bank is responsible for inflation, especially when inflation is high? Whoever is articulating it, he or she has to say that people will buy greater commitment of the government to containing inflation, if the matter is handed over to RBI. But I am not sure whether people of India are prepared to buy it. We have seen people of India for the last 50 years; they look only to government, particularly on inflation. Elections are won or lost on inflation, more than anything else. Government cannot wash its hands off inflation in India.

The third question is, given the current situation, can the RBI deliver if it adopts targeting, and if it cannot deliver, will there be erosion of its own credibility? And, by and large in India, there is a consensus that one of the public institutions that is highly respected, is Reserve Bank of India.

I think once you answer these three or four questions, answer will be self-evident. Thank you.

Dr.D. Subbarao: But, I think the debate is more about RBI having too much discretion because of too many objectives and not being forthcoming on which objective is taking precedence at each given point of time. So, what the analysts, what the financial sector and what the larger public are demanding is, 'can there be clarity on under what circumstances growth, for example, takes precedence over price stability, or when financial stability takes precedence over growth? Can there be some sort of transparent rules for governing this objective function?

Dr. Y.V. Reddy: I think this is very valid question but again somewhat old. I am reminded of a day when the then Governor of New Zealand–it was 15 years ago–came to India to deliver a memorial lecture. He put all of these and more arguments in favor of inflation targeting. Governor Jalan was presiding over that meeting; he stood up straight away and countered those arguments. I think all we have to do is go back and look at the reasons why inflation targeting was advocated and why at that point of time Governor Jalan felt that it would be inappropriate. I am afraid that fundamental features of the Indian economy, or for that matter even globally, have not changed: maybe global wisdom has changed but it has changed more in the direction of non-inflation targeting rather than inflation targeting. All I am saying is that the arguments are not new.

Dr.D. Subbarao: OK. Now let me raise a question about the importance of savings rate in monetary policy calibration. It came up briefly in yesterday's discussion, but it's an issue that warrants more attention. Monetary policy, as we all know, is a question of trade-offs: trade-off between growth and inflation, trade-off between the interest of lenders and that of borrowers, trade-off between, as Joseph Stieglitz said yesterday, between savers on the one side and consumers and investors on the other. But, experience shows that some trade-offs figure more prominently in monetary policy calculation than others.

One concern that's not heard is the 'voice of the poor'. Like Minouche said yesterday, inflation is a regressive tax. It hurts the poor the most. But when we make monetary policy, the voice of the poor is not typically heard. What's heard really is what the articulate lobbies in the economy - the trade bodies, the financial sector, the industry - , have to say. These latter bodies are all legitimate interest groups, with a stake in the economy, and what they have to say has to be reckoned with. But, it's equally important also to reckon with the 'silent' voice of the poor.

Another large interest group that is not reckoned with as much as it should be is the 'savers' group. More specifically, I believe, the voice of savers is not factored into the monetary policy calculus as much as it should be. This is the case, I believe, not just in India but around the world.

Take QE for example. It's a tax on today's savers to bail out today's consumers and investors. Chairman Bernanke admitted as much in one of his speeches. I was reading Allan Greenspan's interview recently which was part of the promotion of his recent book, "The Map and the Territory". Greenspan says that in his eighteen and half years of tenure at the Federal Reserve, he used to receive thousands of letters and notes every year from people asking him to cut rates. But he did not receive any letter or any note asking him to raise rates. That's my experience in the Reserve Bank too. People shouted from the rooftops that the Reserve Bank must cut rates; but nobody ever said that the interest of saver is hurt and the Reserve Bank must raise interest rates to protect the interest of savers. Here in India, this is an even more important issue. We need to improve our savings in order to generate resources for investment. So, sir, first I take you on, on this. Do you think, in articulating monetary policy, the Reserve Bank should also be talking about the importance of savings rate, and not just about inflation, not just about growth, not just about financial stability. Shouldn't monetary policy also focus on larger concern of generating savings?

Dr. Bimal Jalan: No. My short answer is that the sensitivity of the savings rate to monetary policy changes of 0.25 percent or 0.5 percent is negligible and can be ignored. Even in the long run, you have seen negative real interest rate and positive real interest rate and you see the behavior of India's saving is not sensitive to that. Corporate savings are high because they don't want to invest and their savings are not sensitive to minor changes in the interest rates. So my main point is that they are not sensitive to these minor changes, up and down, in interest rates.

Dr. D. Subbarao: But the point you are making is that savings are not interest rate sensitive, investment is?

Dr. Bimal Jalan: No they may be sensitive, but they are not sensitive to 25 bps changes, up or down. May be in the long run.

Dr. D. Subbarao: But do you say that investment is also interest rate sensitive?

Dr. Bimal Jalan: I would say that in our situation and in the context of emerging markets, investment is interest rate sensitive if there is a boom or upturn in the economy. But not when you have a downturn. So, there is a relationship between investment and the interest rate which is also correlated to the macro policies of the government. Why is it that all investors are waiting in India? Because, there is uncertainty in policies and unless you assume that you have a stable macroeconomic environment, uncertainty drives both interest rates and investment. So, this is a complicated issue.

Dr. D. Subbarao: I just want to open up at this point for questions from the audience on monetary policy issues. Just please confine yourselves to monetary policy issues. Dr Acharya?

Dr.Shankar Acharya: I want to ask a pointed question, that anyone of you in panel is free to answer and could I request Dr. Reddy to start. As far as I know in last 6 years in India, we have had strongest burst of inflation that I am aware of as I know the data reasonably well. As we all know, consumer price inflation is at or about 10 percent a year for 6 year period, and the question I have - is it the case that monetary policy during this long period, cutting across from a period of more than one governorship, was not appropriate or not tough enough or whatever or is it the case that the nature of inflation was such, that within the domain of feasible monetary policy it had very little impact.

Dr. D. Subbarao: Good question, tough question. I will not answer that because it pertains largely to my period. As a matter of fact, I have answered the question several times during my tenure. Perhaps I will return to it sometime later but not right now at this forum. But Dr. Reddy?

Dr. Y.V. Reddy: As I said, the effectiveness of monetary policy, in terms of transmission, in terms of penetration into the economy and in terms of the factors (that are a lot more structural than demand driven) influencing the inflation is somewhat limited. In fact that’s what implicitly I said, can RBI deliver on inflation targeting given the current circumstances, especially during the process of structural transformation and given the fiscal situation? I believe that ideally inflation has to be a joint responsibility and should be treated as a joint responsibility and that’s the only way in which we can move ahead.

Dr. D. Subbarao: Joint between the government and the RBI - ok. Ajit Ranade?

Dr. Ajit Ranade: This is a topic that came up yesterday as well. So, this question is actually to Dr. Subbarao because you mentioned just now in your comments that if only we had little more clarity on objectives. My question is the following:

First of all we are not sure, even if the objectives are clear, whether there is a connection between actions and outcomes and secondly if there is a connection, the outcomes come much later. So if you are going to hold RBI accountable after 18 months or whatever, it is too late. So, the disciplinary impact of connecting RBI’s objectives to actions to outcomes and therefore holding it accountable is a very weak framework. I am just reminded that UK has been an inflation targeter for some time, but consistently exceeded its declared targets. They kept on clarifying on not meeting the target and said they would try it for next time. I don't know why we are so hung up about clarity; I am actually not talking about the accountability but clarity of objectives, as if with clear objectives a lot of things will be easier.

Dr. D. Subbarao: Thank you for the comment. There is no question there I see, but the comment you are making is an important one. I was only trying to reflect a lot of issues that have come up in the public debate about monetary policy, including the Prime Minister saying at one session that there is a need to review the monetary policy framework, which, in fact I believe, was the motivation of the Urjit Patel committee. Yes, it is difficult to link objectives to actions and then to outcomes. But the reference seems to be that it might be better than the current framework where the objective function which is much diffused is not defined at all and the RBI has too much discretion. So much discretion that it is not clear to the markets what indeed the RBI is doing. That is where I was coming from.

I see there are many in the audience with questions, but for we will move on, and maybe take these other questions as we move into other segments of the panel discussion.

I want to move now to monetary policy, macro-prudential policy and financial stability that we discussed yesterday. One lesson of the crisis that several people mentioned yesterday is that price stability and macroeconomic stability do not guarantee financial stability. Indeed some people, like Joseph Stiglitz, actually made an even stronger assertion: that if you are having price stability and macroeconomic stability for too long, you should get worried, because there might be some cancer of financial stability brewing in the underbelly. So, quite understandably, post crisis, financial stability, has taken center stage. That raises two questions. How do we guard financial stability and second who should do it? We also discussed yesterday that monetary policy and fiscal policy are possible instruments for financial stability, but perhaps not the best. Monetary policy is too broad and maybe not cost effective to guard against financial stability. Fiscal policy can be targeted, but it is delayed in outcomes and it is also entangled in a lot of political economy issues. We discussed possible options yesterday. John Gieve gave us the UK perspective and some others gave a wider international perspective. Let's see this now from an Indian perspective.

Sir, you are famous for having used macro-prudential policies in India, much before macro-prudential policy became intellectually fashionable, indeed much before the term macro-prudential was even coined. So, two questions; first, how do you decide when to use monetary policy and when to use macro-prudential policy? Second, how do you decide whether to use across board macro-prudential policy or sectoral macro-prudential policies?

Dr. Y.V. Reddy: Thank you. I will only draw on my experience here, which is in the public domain. On the responsibility for financial stability issue, I think basically if it is a crisis dimension, then the fiscal authority has to come in. Once instability occurs then, without the support of fiscal authority, there is nothing that the monetary authority can do. So, basically preventive has to be essentially in the Central bank, but some fiscal co-operation is needed.

One instance in May 2004 in India is relevant. Perhaps it is common to other EMEs also. Whenever there was political instability coinciding with financial instability, a common feature in EME's, the fiscal authority cannot take the lead. So the way I look at it is, perhaps in the EMEs, the central bank rather than the government, has to be in the lead. So central bank is preferable if there is a possibility of elections and political instability. Therefore, there may be certain advantage in giving assurance that financial stability is in the hands of a professional Central Bank and that was the experience in May 2004. We in India were able to pull through the problem with full intervention as needed, since we were in the lead.

Now, as far as choices between monetary policy and macro-prudential or sectoral and across the board, I think, again I learnt from Governor Jalan that from multiple indicators you also go to multiple objectives and multiple instruments. You cannot have a pre-ordained view of what should be taken first or what should be next. So the way I look at it is, the policy makers should have all the instruments at hand. For instance, if you find there is a bubble, but it is essentially concentrated around housing or real estate, then you target it more. We know all resources are fungible. But in spite of the fungibility, sectoral intervention has some effect, and in any case monetary policy cannot be inconsistent with macro-prudential norms. So in a way almost during my period as Governor that we are talking, the interest rates were moving up rather than down. In fact there was a greater threat of moving it further, which ensured that markets were on guard. There is no need to increase interest rates if there is a threat of increase; half the time, the threat works. And, secondly, macro-prudential has to go in tandem with monetary policy; at least, they cannot be in contradiction. The sequencing and packaging would depend on the context: how that boom or bubble is occurring, and where it is occurring and what is the source? If the source is external liquidity, then you handle external liquidity. If the source is excess credit in household, then you handle household credit. Ultimately the existence of excess leverage can be compartmentalized in spite of the relationship between household, corporate and financial sector. So, I will put it; the three should not be in contradiction, and must be harmonious with sequencing and packaging depending on the perceived source of the instability.

Dr. D. Subbarao: Now, both your answers actually lead me to a question, one that I do not in fact have in my notes. You are suggesting that the Reserve Bank should have a responsibility for financial stability. That's obvious of course. But, the Reserve Bank should also have an explicitly defined and clearly understood responsibility for financial stability. In other words, if there is uncertainty, if there is instability, people should know that the Reserve Bank will step in. That will happen only if, explicitly or by convention, the Reserve Bank is accepted as the institution with central responsibility for financial stability. When we made this plea before the FSLRC, that the Finance Minister referred to yesterday, the report is now out, but when they were in session, we from the Reserve Bank went and made a submission that financial stability must be explicitly defined in the mandate of the Reserve Bank. We gave out quite a cogent, well-written paper in support of that position, but the FSLRC, in their wisdom, did not accept that submission. What's your view on that? That in the mandate of the Reserve Bank, should financial stability be explicitly defined, understanding of course that the Reserve Bank cannot be the exclusive overseer of financial stability?

Dr. Y.V. Reddy: I anticipated this, that's why I started my answer by saying that I will draw only on my experience, not in the current context. Drawing on my experience, whatever I said was entirely drawing on my experience of 2004. When the old government was then voted out of power, there was uncertainty about the new government. At that point of time if there was an explicit responsibility of the government to handle stability and the government itself was unstable, there would have been a vacuum. So that was my view, but what it will be now, I don't know.

Dr. D. Subbarao: All right. Let me move to another question that comes up whenever we talk about macro-prudential instruments and financial stability which is central bank autonomy; central bank autonomy to conduct monetary policy and to conduct macro-prudential policy. We had some discussion on this yesterday, about the independence of central banks. The broad sense from the discussion yesterday was that the Central bank should be autonomous but also that the autonomy should not be unfettered. We all understand the rationale for autonomy of central banks for monetary policy. However, all central bank governors, some of them in public, almost everyone in private, admit of pressures. Reverting once again to Allan Greenspan's interview, which I read only recently. Greenspan says in that interview that in a democratic society it is difficult, if not impossible, to lean against the wind. So all this talk about leaning against the wind and removing the punch bowl is just talk. It is difficult to remove the punch bowl. Some panelists referred to this yesterday: that in a boom time, implementing counter-cyclical policies is just not possible. In India too, we see this clamor for RBI reducing interest rates, criticizing RBI for being a party-pooper, not understanding the needs of the economy, etc. You are very well positioned to answer this since you have written about issues beyond monetary policy; you have written about democracy and governance issues. Do you think, in a democratic society, it is possible for the Reserve Bank of India to be independent in conducting its monetary policy? Draw on your experience not just as the governor, but also as a member of parliament.

Dr. Bimal Jalan: You know this whole question of autonomy to my mind is over-stretched, in particular for a developing country like ours. And, since you asked me to talk about experience, I will once again refer to the Asian crisis experience when in managing the exchange rate it was necessary to ensure that confidence factor does not get adversely affected even as we were losing reserves. And this is related to the question of autonomy, as it is of utmost importance to have a consensus, what you might call a view which is shared by both the government and the RBI. Government is ultimately responsible to the Parliament, and because whatever be the fiscal or economic policy dimensions, politics does trump economics. And, if you are dealing with issues which are difficult to handle, then a consultative or a consensus approach, devised by the government and the RBI together, is of utmost importance.

In the midst of the Asian crisis, we started losing reserves while intervening in the market and there was a view that the exchange rate should be stable within a range. In our country also, at that time government's informal view was that it should not be allowed to exceed a certain level. However, based on its own experience, the RBI's view at that time, during discussion with government, was that any target set for the exchange rate is bound to be flawed and cannot be sustained. Interestingly, when a new government took office in early 1998, a public statement was made by some ministers that the rupee should be strong. As soon as this statement was made, the attack on the rupee intensified substantially as no market operator expected RBI to succeed in maintaining the targeted exchange rate! Ultimately, after some discussion with government regarding the prevailing global political situation, where U.S. had imposed sanctions in view of India's nuclear test and where capital flows had become negligible, there was consensus that RBI should be given flexibility to manage the exchange rate. RBI then devised a policy which allowed the rupee to depreciate but intervened very hard at the unexpected moment, when market operators got nervous. With support of government, this policy proved to be highly effective in preventing a balance of payments crisis.

So what I am trying to say on so-called "autonomy" is that these are issues where government and RBI need to consult and decide together. It is not a change of 25 bps or 50 bps in interest rates; there you can be autonomous. Government can be autonomous whether the fiscal deficit is 4.8 or 4.2. So if you don't have a problem, you got autonomy. But if you have a problem, it has to be consultative. It has to be a consensus and the consultative process is of extreme importance.

Dr. D. Subbarao: So are you saying Sir that both in monetary policy and in managing the external sector, you must have consultative approach?

Dr. Bimal Jalan: You must have a consultative approach, but if times are normal, and there is no crisis, consultative approach can be one where we have consulted and you are given the autonomy to increase interest rate. The finance minister knows that RBI is going to increase interest rate tomorrow and he can say it's their autonomy, and I am not responsible! Political economy, my dear!

Dr. D. Subbarao: Let me turn to you, your comments on the political economy dimensions of managing all of the Reserve Bank's mandates?

Dr. Y. V. Reddy: First let me quickly respond. See if the Central bank has formal independence, legal independence and if it is afraid of losing it, it is as good as not having it. Don't think I am joking. I will read out Justin Fox's account of a Greenspan's interview.

Quote:

The question: “Do you quash the bubbles”?

Answer: “Yes, you can quash the bubbles, but not in a democratic society. I mean, I hesitate to think what would have happened if the Federal Reserve had tried to quash the dot-com boom, assuming we knew exactly what it was about. The Federal Reserve's independence would have been severely constrained, believe me. We were independent in a sense that no other agency of government can countermand the actions, but all sorts of pressures are always there and the act could be amended.”

Unquote:

So the limited point is, in the ultimate analysis, it is the sovereign which is granting you the independence. Therefore, whenever I was asked in many forums – “Governor Reddy, is RBI independent, are you independent”? I said, RBI is independent, I am very independent and I have taken the permission of the finance minister to tell you that. So, I think I am just endorsing what Governor Jalan said. But the other topic, the political economy of the capital flows, is slightly different.

Dr. Bimal Jalan: Let us take the US just now. What is Fed, the great defender of autonomy, doing? It's pumping money, tapering, not tapering, all this must be with a consensus of the government, and I am sure.

Dr D. Subbarao: Thank you, Sir. I would now like to open for questions from the audience on the issues of monetary policy, macro-prudential policy and autonomy of central banks.

Dr. Sikka: I am an advisor to UNCTAD and Swedish International Development Authority. Looking at the scenario; I have been involved with the Ministry of Industry and Finance from the 60s to 80s. Looking at the present situation, for more than 20 years government of India has spent on social security and on infrastructure, which is good. But, if you look at world situation, India has become different, the world has become different. It is a large consuming society. Is it not necessary that we become part of the world? Why can't we spend the money, should we not direct our monetary policy towards developing our technologies for agriculture as well as for industries? That will bring India back into the world economy and the world will also start growing.

Tamal Bandyopadyay: Talking about independence, Dr. Jalan spoke about 1997 and I am sure Dr. Subbarao you could speak about 2008. What I have seen is that the so called consultative process works only when there is a crisis. But in good times, when the macroeconomic scenario is not so bad, you find there is a conflict. There have been occasions when ahead of the governor's monetary policy statement, we find that ministry has made an announcement on what the Governor is going to do hours ahead of this. So, it's nice to hear Dr. Reddy saying that I have taken the permission of FM to say that I am independent. But do you actually feel nice when the FM announces the monetary policy from the Ministry?

Dr. D. Subbarao: No. You certainly don't feel nice when the FM speaks out of turn. You also spoke about normal times and distressed times. The entire five year period I spent in the Reserve Bank were all distressed times. So I have no reference frame to compare with a normal time. But I want to add from my experience that preserving monetary policy autonomy has been a challenge. This is not just in India; I have learnt from other governors that they too face similar pressures. Doing what you believe is the right thing for the economy from the Reserve Bank perspective, has been difficult because the government and the other stakeholders have different perspectives. I am not saying that their views are not legitimate. The Government definitely has a stake in sound macroeconomic management. But monetary policy is the RBI's prerogative. Asserting your autonomy, when your views are different from those of the Government, has been a difficult challenge. To that extent, I would admit.

Dr. Y.V. Reddy: Once on this issue, in Singapore at the time of Fund-Bank meetings, the finance minister and I were there; a very rare occasion. The industry leaders asked: "now we caught both of you together. Every time the finance minister says I will ensure growth and I will lower the interest rate, the governor keeps increasing the interest rate. We get mixed signals, we want you to answer". I said, since the minister is here, I won't answer. Then the minister said on my behalf also: "what's your problem, I have been promising growth, and I am giving you growth. Governor is promising price stability, he is delivering it, so don't complain".

The challenge for a Minister in articulating to different constituencies and political compulsions are understandable. If there is undermining of central bank, then there is a problem. But it is very difficult to draw the line. It's easy to exaggerate the differences and ignore the convergence. So I think one should take a balanced view of 'differences'. In fact, if there are no differences with government, then RBI is superfluous and if there are always differences, that is obnoxious.

Dr. Stephany Griffith-Jones: I think not all countries are as lucky as India to have such common sense and balanced governors. I was wondering what your view was on discussion on macro-prudential and whether there should be some kind of ex-ante rules to bind or to constrain the regulators or Central bank governors in boom times.

Dr. Y.V. Reddy: Both Usha and Shyamala are here, I can share this with you. At that time when we tried to do that, I mean tightening, the market players said that it was against the rules. The sectoral risk-weights and provisioning were considered to be inappropriate. They said how do you do that and especially when it came to housing-I think Basel rules had a lower risk weight on housing. . So the problem is: when we make the rule, we think we know the situation correctly till eternity. In complex situations, we should be little more careful. You may have some sort of a guideline but not a rule. You look at a problem, at stress indicators and at these stress points and then make up your mind as to what should be done. What we should be doing is collecting data and monitoring them carefully. The very fact that we are collecting the information, influences market participant's behavior for the better. We used to monitor almost on a daily basis - almost of all the major players as well as the markets.

Dr. Bimal Jalan: You know, I think that what Dr. Reddy has said is extremely important. My view is that if you dealing with two institutions in a democracy, the Reserve Bank ultimately is accountable to the parliament, through the Ministry of Finance. Now based on my experience, there are personalities which can differ. But if there are differences, minor differences, there are no problems, like a decision on 25 bps change in interest rates - but there must be communication. There must an acceptance that there are differences. But the "connectivity" in decision making should not be compromised. I also believe that when there is an important national issue, on which there is a difference, say Reserve Bank governor wants to take tough action because inflation is high or because exchange rate went up from 60 to 68 or something happened which is not acceptable to the Government, then why don't you step down? That itself would be an indicator. There can be differences of personality, there can be differences of communication and there may be differences of trust − but in the country's interest, it's of utmost importance that we have a consultative system and accept that there are bound to be differences in views. There has to be acceptance at both ends. But, if there is a problem that is difficult to handle and there is no agreement, then you resign.

Dr. D. Subbarao: That's why Dr. Jalan goes down in RBI history as a statesman governor because he set a role model for how to do policy in consultative framework.

Dr. Bimal Jalan: No, No, there are differences, yes. Well if the Finance Ministry says something to the effect that they do not support RBI's decision and that is wrong. Then it is much better for the government itself to devise the policy and appoint the person as Governor of the RBI who can support that policy.

Dr. D. Subbarao: Sir, you are provoking a lot of questions.

Dr. Bimal Jalan: Ok, sorry, about that. But I feel that in a democracy, government is responsible for answering to the parliament and you accept that. That doesn't mean that RBI has to be political. If a tough decision has to be taken, it should be taken. If the government says, no, do not take tough action, which RBI considers tube in the country's interest, then the Governor should decide to step down. Government always has the freedom to appoint whoever they wish. The short point is that the country's interest is paramount, particularly when the economic or political situation needs difficult actions to be taken by the RBI.

Prof. Sunanda Sen: I have two points both of which related to interdependence between the Central bank and the Ministry of Finance. First point is, coming back to the link between interest rate and prices; I think few more things need to be looked at. First is commodity market expectation and how it is building up. The second one and at the moment is very dominant, which is exchange rate. The exchange rate certainly impacts commodity prices and that's inflation and to what extent it will impact will also depend on weights of imports in our GDP. So these are the factors which determine to what extent interest rate alone will be responsible for rising prices. And, the second point is; the autonomy of the Central bank is also related to the exchange rate. The exchange rate is determined in the market today and when the exchange rate has to be managed, the Central bank is not exactly autonomous because external forces like the market is determining to what extent it has to be managed and that will determine what will be the money supply?

Dr. D. Subbarao: Thank you for those questions. In fact you are anticipating some of the questions on my list and we will come to that. Minouche?

Dr. Nemat Shafik: I think it's known that there are tensions between the fiscal authority and the monetary authority in any country and that those tensions are managed through consultation is clearly right. But, I think many countries have found that it sometimes advantageous to take some decisions away from politicians through a democratic decision-making process. In UK for example, there is a rule that one year ahead of an election, ministries cannot take any spending decisions that commit future governments, in order to prevent the kind of spending spree that goes on in most countries ahead of an election. It's a very good rule and both political parties agreed that it was in the national interest to prevent that kind of spending spree. So it was agreed that politicians will voluntarily restraint themselves one year ahead of an election so that they couldn't buy an election through fiscal policy.

It worries me, as I think Governor Reddy said, that elections are won or lost in India based on rate of inflation. Is that a good thing for India? Is that not a decision where you might want to take the power away from politicians and as you rightly said, we should make the decision in the national interest. I completely agree that in democratic society central bank needs to be held accountable for delivering the objectives and the objective, viz the rate of inflation, should be set by the democratic authority. There can be an objective and hold the authorities to account. But immunize the very important issue, rate of inflation in the country, from the political cycle.

Dr. Bimal Jalan: You know you raised a very important issue. The parties competing in the elections agreed in the UK that there will be no spending. Why? Somebody who wanted to come to power could have said there should be spending. So, ultimately if you want to run a system, those who are responsible, those who are in power and the decisions that are difficult have to be taken, there has to be consensus. But the ultimate responsibility is of the authority that is announcing that decision and somebody after agreeing can say, you know I don't agree and I like spending.

There were times when I told the finance minister of that time that you are quite free to say that you like rupee to be strong but that doesn't mean that I have to do what I can't do. I think these differences are part of any society, in any system, if there are two authorities there may be differences. In normal time, those differences can be settled but there may be difficult times and the difference should not be, for example, if I am going to raise the interest rate and the finance minister announces that he is not for it, that's wrong. Even if he wants interest rates to be low, silence is much better than announcing it in public because that raises expectations. All of us may have different views but there is no point in going to the press and saying that I would like interest rate to be reduced. Finance minister should not do just it, as the RBI should not announce that they are autonomous and therefore they would do something with which finance minister doesn't agree.

Dr. Y.V. Reddy: I agree with you that if the sovereign decides that it is in public interest to grant independence to the Central bank that is ideal. If they should agree to do it, they should really mean it. If you do it for form sake, but actually undermine the independence (of central bank), then that is worse than not having formal independence. If the independence is granted by law, and if the Central bank is afraid of losing that independence given via legislative amendment, it does not serve the purpose. So essentially the question is whether the sovereign has decided that it is in national public interest in a lasting manner to genuinely hand over the situation to the central bank with safeguards for accountability.

I will give you one example of India. The recent fiscal deterioration has happened after the Fiscal Responsibility Budget Management Act (FRBM) was passed. It created targets, a pause was given, and postponement of targets was made. So law by itself will not guarantee independence to central bank. I believe by and large, barring a few episodes and exceptions, Reserve Bank of India pretty much has the respect of the people. Financial markets and pink papers apart, most people still feel that the RBI is fairly responsible and RBI is able to negotiate its way through the government. If what you say is right, if cabinet decides that RBI should legally be granted independence and that it would ensure greater credibility, I think it should be done. We will wait for the cabinet to do that.

Dr. D. Subbarao: I want to get a little more granular, if only to make a point, and in doing so I want to connect with points Stephany made which is that: is there any difference in the central's bank autonomy for monetary policy as distinct from its autonomy for macro-prudential policy. It's widely accepted that central bank should have independence for monetary policy but opinion on independence for macro-prudential is not so clear. In fact, when I was attending Basel governor's meetings, I heard reservations from colleague governors of advanced economies about accepting responsibility for financial stability and responsibility for conducting macro-prudential policy. Their concern was that macro-prudential policy, at its core, is political, and accepting responsibility for a function that has political dimensions will willy-nilly give way to political interference. But once political interference starts, there is no end to this. Interference might start in the domain of macro-prudential policy first but then can seamlessly creep into the domain of monetary policy. It's difficult to put up Chinese walls.

So, I want to ask Sir John Gieve about your experience in the Bank of England. Do you think we should make that distinction between the autonomy of a central bank for monetary policy and its autonomy for macro-prudential policy?

Sir John Gieve: As you know in Britain, we have slightly different institutional arrangements for macro-prudential and monetary policy. They both have committees chaired by the governor of the Bank of England, where they have slightly different memberships. In one, the Treasury (i.e. Ministry of Finance) sits as an observer, and in the other the Ministry of Finance has a member who votes. Both these committees never quite work by voting, but nonetheless these are fine details. My broad answer is 'No' and that's partly because I believe as India has done, when you are looking at managing the growth of credit, you have to look at your quantitative macro-prudential instruments alongside your broader interest rates weapon on the monetary side. It makes sense to look at those things together. Central banks need some independence to decide which is appropriate and to do it.

I think the discussion has been very realistic on independence. Of course ultimately, this is all subject to democratic control. You can change the law when necessary and that has happened in the Bank of England. If you look at Bank of Japan, when new governments come in and don't like the current set of governors, they are dispensed with and then they announce the new policy. That is always possible. So you are always talking about limited degree of independence. What you are doing in your institutions is trying to build up a stronger voice for expert non-partisan decision takers in the Central bank and you can do that through giving them committees with independent outsiders, you can do it through transparency making them make public statements about what that they are trying to do and why to explain what is going on. All of this conditions the debate in which the finance minister has to decide, do I put up with this problematic governor or not. So, it's about conditioning the terms of debate. And going back to your Patel Committee in which he says, well surely if you are going to be transparent you should have a clear accountability and you should have clear targets. I think there is something in that, but what you don't want to do in that is what we have done in the UK, is to have a very clear target which is real tough because then you get into very convoluted games of trying to explain why as someone said, you missed your inflation target for five years. Then everyone can see you are targeting growth, but you have to explain it in terms of avoiding long term deflation. So transparency is great, clarity is great but you should have your objectives clear and that could be more than one thing.

Dr. Y.V. Reddy: I just want to narrate an incident. Once in a committee I was asked this question - at the time when UK was having separation of banking regulation from monetary policy etc., - as to what my view was on it as many people feel that banking regulation should be taken away from the Reserve Bank of India. I asked him: whether you want my answer as governor of the Reserve Bank or as a citizen of

India. He said, as both. I said, as governor of the Reserve Bank of India I would like to get rid of banking regulation. I will have more autonomy for monetary policy. And, that was the view which was expressed by Dr. Rangarajan, when he attended I think in the 200th year, celebration of the Bank of England, some 15-20 years back. As a citizen of India, I would be scared if the banking regulation goes out of the Reserve Bank of India because these people know the business, they have been doing it so far and they have done a reasonably good job. We don't know what these new (banking regulation) animals will be, and banking is too important to be experimented. So that was my answer and I still hold that answer.

Dr. D. Subbarao: OK. Thank you for that. Let me now turn to external sector issues and connect with the question Prof. Sunanda Sen asked about the responsibility of the central bank for the exchange rate. That's a very current debate in the international forum, During the IMF spring meeting last April, there was a seminar and one of the questions in the background paper prepared for that conference was: "Should a central bank target an exchange rate as well"?

My recent experience in the Reserve Bank is a case in point. When we eased our monetary stance in the face of a rising current account deficit, we were criticized for not being sufficiently sensitivity to external sector issues. Again a couple of months after that when we used monetary policy again, tightened it as a defense against rupee depreciation, there was criticism for using monetary policy for external sector management. There was of course some contradiction or inconsistency in both those criticisms. Nevertheless, the broad concern was about whether and to what extent external sector issues must influence monetary policy. In this morning's session too, we heard conflicting views. We had Manuel Agosin saying that exchange rate should be on the radar screen of the central bank whereas Sukhdave Singh took the view that one should not use monetary policy for exchange rate purposes. We recognize that when a central bank tries to take external sector issues, particularly exchange rate, into consideration, it forfeits some monetary policy independence. That of course is understood. So you have to draw a fine balance about when the external sector issue is important enough for you to recalibrate your monetary policy, even if there are concerns about inflation, and about growth, issues that Deepak Mohanty spoke about in the morning. So the question is: should RBI be open, transparent, honest and admit openly that it will also be targeting an exchange rate or at least admit that it will be concerned about exchange rate considerations in calibrating its monetary policy.

Dr. Y.V Reddy: In view of paucity of time, I pass.

Dr. D. Subbarao: This is too important to pass. You got to give an abstract answer.

Dr. Y.V. Reddy: They are linked. Within a narrow remit, well you can choose one of the two but beyond a point, no. Let me again give one illustration. When we in RBI proposed the market sterilization scheme where the cost of sterilization beyond a level was transferred to the government through a complex mechanism, the Chief Economic Advisor advised that it should not be done. Perhaps theoretically we should not have proposed because that reduces the autonomy of central bank in the management of foreign exchange rate. My point was that anything to do with sterilizations of foreign exchange flow has a quasi-fiscal implication. So my remit is only to incur quasi-fiscal implication up to a point. Anything more than that, has to be decided by the government. In a way, therefore, like constrained discretion or flexible rules, I think the autonomy in regard to exchange rate management for a central bank has to be in a restricted sense. My suggestion was that sterilization by RBI can be within a limit and beyond the limit, the government had to authorize, which was accepted.

Dr. D. Subbarao: We are not talking about autonomy; we are talking about calibrating monetary policy with exchange rate considerations in view

Dr. Y.V. Reddy: That's what I am saying: They are related to the extent monetary policy has an impact on and is related to exchange rate management and if that is beyond some boundaries, you may have to get back to the government. What I am saying is that if exchange rate considerations are driving the monetary policy, then you will have to take the government into consideration because of the quasi-fiscal cost.

Dr. D. Subbarao: José Antonio, you had a comment to make on this? Even if you do not, go ahead and make it.

Prof. José Antonio Ocampo: First of all, the point was made yesterday that there is a very different situation you are for facing, in appreciation or depreciation, simply because Reserve Bank of India issues rupees and not dollars. So, I think, the responsibilities are asymmetric anyway. So the responsibility, if anything, is to avoid excessive appreciation. I don't think Reserve Bank of India under current circumstances, would be able to defend against the depreciation. I think it's a very different phenomenon. I think what Dr Reddy had just pointed out is very important – who pays is important. This is also true for cost of macro-prudential. Government has to be involved in anyway in macro-prudential policy because at the end, it is the government which is responsible for paying for any of the financial sector disaster. So in the case of the exchange rate it may be true, particularly if you are avoiding appreciation by sterilized intervention, government money at the end would be involved in these transactions. So the government has to be involved in exchange rate issues anyway.

Prof. Joseph Stiglitz: I want to comment little bit about the argument that was just used which is that even for unconventional monetary policy like QE, the government ought to be involved, because in QE as the Federal Reserve has bought these huge couple of trillion dollars of bonds, it is almost clear that there will be a capital loss. They may not recognize their capital loss because they don't use mark to market accounting but if they use good accounting they will have a large capital loss. Therefore, that will be reflected in the payments that the Federal Reserve will be making to the US treasury for years to come. So we will be experiencing a significant cost that taxpayers have never been consulted at.

Dr. Y.V. Reddy: I agree. Increasingly the huge public debt, particularly in advanced economies, has to be managed with the cooperation of the central bank. Independence of the Central bank in a high public debt situation will not be very convenient for the sovereign. Second, if you have huge open market operations which have fiscal implications, like QE, I think, it is morally necessary, even if it is not legally necessary for the central bank to take the fiscal authorities into confidence.

Sir John Gieve: Just in the UK, the Bank of England has sought the explicit agreement of the government for QE and has been given that at each point, precisely for that reason. And, one another circumstance, in which explicit transfer of authority takes place is in a genuine financial crisis which, I think, goes back to Dr. Reddy's view that in the crisis it's all about fiscal. So, there is a provision in our law that at the point of rescuing banks in a financial crisis, the minister of finance, chairs and takes the lead on coordinating with the Central bank, ministry of finance and other bodies; in normal time those bodies have a greater degree of autonomy.

Prof. Joseph Stiglitz: I just want to ask a question about the issue of monetary policy and capital account management which has been the central theme of this conference. Do you see the free flow of capital or partial flow of capital (as in the case of India) as impeding policy space in India? If you had a more open market, would it constrain you more and has this been an important instrument for maintaining macro stability?

Dr. Bimal Jalan: Are we talking about capital account convertibility issue?

Prof. Joseph Stiglitz: A broader array. Not only capital account convertibility but also a whole range of macro-prudential regulations that are aimed at external sector as opposed to just the domestic sector.

Dr. Bimal Jalan: So far as management of the external sector is concerned, I think it does change from time to time. There is no steady policy for this because there are expectations in the market. There are very few large operators, who go by expectations on what Reserve Bank will do or not do. For the Central bank to my mind, the objective should be that the volatility has to be avoided unless something happens like earthquake that cannot be helped. Second, people should expect that you have a realistic exchange rate but what that 'realistic' means, one cannot necessarily define. Therefore, you have a realistic exchange rate, the volatility is now avoided and is flexible but managed. Now I can't answer your question except in terms of capital account that sometimes you will have to intervene in the capital account also, in the sense that not in terms of money going out but money coming in. If there are a lot of expectations, stock markets are rising and corporates are borrowing huge amounts of money abroad because interest rates are very low, as it happens now, then we have to do something because that will have an effect on the external sector management. Also because lot of money is coming in, Reserve Bank is accumulating a lot of reserves which are borrowed and the total current account deficit can be translated into capital account surplus, simply because of interest rate differential. So all these issues are very difficult but the central point to my mind is that you have to have a realistic exchange rate so that the market believes that it is realistic; two, you have to have flexible but managed exchange rate and three, as far as possible, don't change the capital control mechanism that you already have in place because once you have to change, people will start expecting that there is a crisis, there is a problem.

Dr. D. Subbarao: Do you want to give a political economy dimension to this?

Dr. Y.V. Reddy: Yes sort of.

Dr D. Subbarao: I think Joe posed this as a purely objective policy question but do give the political economy dimension.

Dr. Y.V. Reddy: I almost invited you to ask this question. At last I will have the opportunity to be abstract enough. At a very broad level, when capital is mobile across nations but labor is not, there is an asymmetry. You may remember Prof. Galbraith's view on American Capitalism, about the countervailing powers to big corporates being labor. Now, labor's bargaining capacity has been undermined as reflected by the change in power of the trade union movement due to mobility of Capital. In the political economy now, the bargaining power of capital far exceeds the bargaining power of labor. Plus capital can be 'in', capital can be 'out', but labor cannot be 'out' of jobs and survive for long. The balance in the political economy virtually changes due to the free capital flows.

Second, if you are a reserve currency then it's a different ball game altogether because you can manage even if some capital flows go and some come. But if you are a non-reserve currency, the impact on the political economy is even more. Free cross-border capital flows restrict the fiscal space and ultimately it is the fiscal that gives the sovereign ultimate power of being risk bearer of last resort. With cross border capital flows, your taxation cannot be very different. So, therefore, in a way your fiscal space also is restricted (by free capital flows) while your vulnerability increases, if you are not a reserve currency country.

Third, large corporates have significant exposure to foreign currency in India. Because of the balance sheet effect, they will bring political economy pressure to appreciate the currency and it will be linked to the performance of stock exchange. So, therefore, in a way there is a circular effect between them.

I share Prof. Andrew Sheng's view that at least one thing we should do along with capital account management is trade finance. Trade finance is good in many ways, at least far less risky than capital flows, but very often the two are linked. When you are in crisis, the trade finance is affected. So if you can devise mechanisms of swaps, bilateral swaps and multilateral agreements with major trading partners where the trade finance is immunized from the extreme volatility in capital flows, then you are able to moderate the impact of cross-border capital flows on trade.

Finally, on the political economy issue, it will be the intellectuals as well as the media who will have to pay attention to the link between the political economy and the capital flows so that we take a more balanced view of the situation. Thank you.

Dr. D. Subbarao: My short answer to Joe's question is, yes. Capital flows, even in a semi-open economy like ours, do influence monetary policy. Indeed that's what happened between May and September last year when capital started going out and we had to tighten and there was criticism that the Reserve Bank was using monetary policy as a defense against exchange rate issues. But the important point is that our resort to monetary policy was not on a standalone basis, we had did that in conjunction with other measures, capital flows measures and, foreign exchange intervention. So there is no escape from it. Perhaps in the neat theoretical world, you can distinguish between the use of monetary policy and exchange rate policy. But when you are hands on, doing practical policy, there is no way you can neatly distinguish between these two sets of policies. They are interconnected and it will be futile to deal with them as if they can be neatly separated.

Jaiminy I saw your hand go up. You want to ask a question? There may be no time for an answer but do go ahead and ask it any way.

Jaiminy Bhagwati: Yes time is short and everybody wants to go for lunch. What I heard is that in the case of the UK and the US when it comes to QE, the central banks consulted with the government and yes, of course, there is going to be substantial amount of loss if you were to mark those securities that they have on their balance sheets to market and those losses will be borne by the future generations. Similarly, coming to the Indian context, there is consultation between the central bank and the government on exchange rate policies, this is what I have understood and I am delighted to hear three ex-governors of the RBI speak so openly about political economy issues, but in terms of explaining to the people at least ex-post, because during or even in the run up to issues leading to exchange rate management, it is very difficult either for the government or for the central bank to be completely open with the people in terms of who is going to bear the cost. If we look at the exchange rate policies of the last five years or ten years even on ex-post basis, what is the view of this eminent panel, as to who should explain it to people, not to blame anyone, but to at least explain. Who should do it? Should it be the government or should it be the central bank?

Dr. D. Subbarao: Actually, both the Government and the RBI should explain it. It's a shared responsibility. But the question is, sometimes we use communication itself as a policy tool for exchange rate management. So, are you using communication to explain what you have done or are you using communication to manage the exchange rate itself? That's another big question we have no time to get into at this late stage in the panel discussion. But I do recognize that communication is a very important central bank instrument for managing policy.

Disappointingly, I have to conclude this session now as it has already overrun time. I want to thank both Dr. Jalan and Dr. Reddy for very forthright and thoughtful answers. My thanks also to the audience for their active participation. Thank you all very much.