

# **Reserve Bank of India**

## **First International Research Conference 2010**

### **Challenges to Central Banking in the Context of Financial Crisis**

*Welcome Remarks by Deepak Mohanty, Executive Director*

1. Professor Michael Spence, Governor Dr. Subbarao, Deputy Governors, distinguished invitees and friends. On behalf of the Reserve Bank of India, I extend a hearty welcome to you all to our First International Research Conference in this great city of Mumbai.

2. Mumbai, a fishing hamlet was gifted in dowry by Portugal to England, and later leased to the East India Company for £10. Today you can't get even a square inch of land in Mumbai for that price. Mumbai has moved on and gained in value and stature. Mumbai is the gateway to modern India and India's commercial capital. Home to the world's largest film industry, this 'city of dreams' has been popularized by Danny Boyle's "Slumdog Millionaire" and in A.R. Rahman's tunes - "Jai Ho". Mumbai is a city that never sleeps. This you may have experienced by now, as most international flights land in the middle of the night. I hope you had some rest and are ready for the day. The city has weathered many adversities only to spring back to life with greater vigour - that is the spirit of Mumbai. I hope during your stay you will get to experience Mumbai's vibrancy.

3. Let me say a few words about this event. As you know, the Reserve Bank is celebrating its Platinum Jubilee year – an important milestone in the history of this ever-evolving institution. The Bank was established on 1st April 1935. It transitioned from being a privately owned institution to

government owned institution in 1949. In these 75 years, the Bank has witnessed momentous changes securing its preeminent position in the economic policy space of the country.

4. The Reserve Bank of India in many ways is a full service central bank. It has a broad spectrum mandate extending beyond monetary policy, such as currency management, regulation of banks and non-bank financial institutions, regulation of money, foreign exchange and government securities markets and public debt management. Our research focus too therefore has a wider canvas than that of most central banks.

5. To mark and celebrate the Bank's Platinum Jubilee year, we have taken a series of initiatives and organised a number of events. The celebrations have run parallelly in three directions. First is a series of learning events to build support for the Reserve Bank's agenda and to showcase the Bank as a knowledge institution. Second is a set of internal events involving current and former RBI staff to reinforce a sense of belonging and inclusiveness among members of the RBI family. Third is the outreach programme of financial inclusion and financial literacy with an overall objective of connecting with the common person of this country. In this Platinum Jubilee year, we are thus trying to cover a vast expanse by reaching out from the remotest village to the global intellectual opinion as yours.

6. The global reach of the financial crisis reminds us that irrespective of the degree of globalisation of a country and the soundness of its domestic policies, no economy can insulate itself from financial turmoil. The crisis has

challenged many of our fundamental beliefs and could well turn out to be the defining moment for a paradigm shift in macro-financial policy framework. In this context, the theme of the Conference “Challenges to Central Banking in the Context of Financial Crisis” is perhaps apt.

7. With the benefit of hindsight, the crisis has been a great learning experience for all. Although the jury is still out on many issues, some broad lessons can still be drawn from the crisis. First, there is increasing support for the view that policy objectives of central banks would have to be broader than price stability as conventionally defined. Second, the crisis has reminded us of the virtues of fiscal consolidation in good times to generate the fiscal space to deal with crisis conditions. Third and perhaps the most widely agreed lesson is that financial institutions would have to be less leveraged and better regulated. This does not imply more regulation but sharper regulation. Finally, preventing and dealing with a crisis in an increasingly globalised world need far-reaching reforms in the international financial architecture.

8. Against this backdrop, let me now turn to the format of the Conference. We will cover the conference theme in two special talks and four technical sessions. We begin with the inaugural address by our Governor Dr.Subbarao followed by the keynote speech by Professor Michael Spence. Then we move on to the presentation of papers and discussions. The first technical session will deal with the experience and lessons from the conduct of monetary policy in the wake of the crisis. The second session will explore how globalization of financial markets on the one hand and financial innovation on the other impinge on the conduct of monetary policy. The third

session will deal with the challenges to regulation and supervision in the context of developments in the financial sector. The fourth and final session of the day will discuss the design of appropriate exit policy from the current expansionary monetary and fiscal stance.

9. After a good night's rest, we resume tomorrow with two sessions of panel discussion of Governors. Both the panels will be moderated by noted economist and columnist Mr. Martin Wolf.

10. The first panel will focus on the areas of monetary policy. It will cover issues such as the implications of the crisis for inflation targeting; the role of asset prices in monetary policy; the changing role of central banks from managing the crisis to managing the recovery.

11. The second panel will focus on the global financial architecture. It will cover issues such as the reform of the International Monetary Fund (IMF); regional monetary arrangements; the future of global reserve currency system; and capital flows and exchange rate policies.

12. I think this is an opportune time, as the world is finding its feet after the storm, to introspect and think out of the box to make the financial world a safer place. I am sure that this high level conference, benefiting from your vast experience and wisdom would contribute immensely to our understanding of the challenges to central banking in the coming times.

13. As a house keeping matter, I may mention that the proceedings of the Conference are being webstreamed on the Reserve Bank website (rbi.org.in).

14. Let me conclude by welcoming you once again in the local language which is Marathi : *Amchya Mumbait Tumha Sarvanche Swagat Aahe.* You are welcome in our Mumbai.

Thank you.