*Vote of Thanks**

Deepak Mohanty

Honourable Professor Joseph Stiglitz, Governor Dr. Subbarao, distinguished guests and colleagues from the Reserve Bank.

Central banks have come under severe intellectual scrutiny ever since the global crisis, even as they have crossed all conventional barriers in responding to the crisis. Monetary policy was partly blamed for the genesis of the crisis, and it continues to be blamed for ineffectiveness in giving us a durable recovery. We need nothing short of a revolution to make monetary policy more relevant. Two major forces playing out since the crisis could aid this revolution: First, the innovative response of advanced country central banks to ensure that this time it should be different from the Great Depression. Second, the animated academic debate amongst the best minds in economics and finance, led by Nobel laureates like Prof. Stiglitz, to recommend what should be the framework for monetary policy in future?

In his opening remarks, Governor Dr. Subbarao discussed the first dimension, which included extensive reliance of advanced country central banks on quantitative and credit easing measures, operation twist and forward guidance, to escape the theoretical limits posed to the conventional conduct of monetary policy by the zero lower bound (ZLB). He noted the far reaching changes emerging in the recent period in monetary policy frameworks of advanced country central banks, with the Fed announcing an explicit target for unemployment; the Bank of England examining possible replacement of inflation targeting with nominal income targeting, and the Bank of Japan being expected to respond to prolonged deflation by accepting a higher explicit inflation target.

Emerging market central banks, despite the pre-crisis best practices, generally preferred to continue with multiple objectives, which included financial stability, and also tried to manage the impossible trinity, with country specific approach to exchange rate regimes and capital account. After the global crisis, the spillovers form ultra-accommodative monetary policies in advanced economies have amplified the challenge from the impossible trinity, besides increasing commodity price pressures. Governor, Dr. Subbarao, encapsulated in his remarks the complex nature of the issues involved in the recent innovations in the conduct of monetary policy, most of which could be experiments, and how these may influence the mainstream monetary policy frameworks, going ahead.

Here, one has to look up to guidance from eminent thinkers like Prof Stiglitz. In today's C. D. Deshmukh lecture, he unraveled fifteen attributes for monetary policy architecture post-crisis. While each of these recommendations would need to be discussed and understood in the country specific context, some of them are clearly path-breaking and thought-provoking.

First, his boarder definition of monetary policy also included financial regulatory policy. The argument here is that what matters for the real economy is lending rates and availability of finance. While monetary policy affects both, regulation can improve the access to credit and terms of credit.

Second, faith in the invisible hand and excessive reliance on market efficiency should not blind side central banks to the possibility of market failures.

Third, a central bank should not be reluctant to use all possible instruments available at its disposal, constrained by the notion that only rate-based policy is more efficient.

* Vote of thanks by Shri Deepak Mohanty, Executive Director, Reserve Bank of India, on the occasion of the 15th C D Deshmukh Memorial Lecture delivered by Prof. Joseph Stiglitz at Taj Mahal Palace, Mumbai on January 3, 2013.

Fourth, macro-prudential regulation is necessary to deal with asset bubbles and macroeconomic volatility.

Fifth, monetary policy should be sensitive to distributional consequences.

Sixth, national monetary policy should stand ready to address globalisation-induced spillovers, and in this context capital control should very much be a part of the policy toolkit.

Most of the recommendations of Prof. Stiglitz are intuitively appealing to many of us in emerging and developing economies. In India, we have a multiple-objectives and multi-indicators approach to the conduct of monetary policy. While price stability remains the dominant objective, financial stability has been recognised an explicit objective of monetary policy. We have used macro-prudential measures even before the crisis as a stabilisation instrument. Our approach to financial sector reforms and liberalisation of the capital account has been cautious and gradual. We recognise that improving access to credit to certain sectors through sector specific policies should be integral to monetary policy. We are also vigorously pursuing financial inclusion as an intermediate objective to promote inclusive growth.

We, in the Reserve Bank, would need to reflect more closely on the key messages from Prof. Stiglitz to strengthen the micro-foundations of macro-economic policies. For a large and diverse economy of over 1.2 billion populations, micro-foundation of monetary policy is indeed a major challenge for us.

Ladies and Gentlemen, I extend my sincere thanks to Prof. Joseph Stiglitz for having accepted our invitation to deliver the Fifteenth C. D. Deshmukh Memorial Lecture, and leaving with us very thought provoking ideas, which I am sure would trigger further debate and research, not only in the Reserve Bank, but globally.

I thank Mrs. Anya Stiglitz for her gracious presence. I thank the family members of late Dr. C. D. Deshmukh for kindly gracing the occasion.

The successful conduct of this programme owes much to the guidance and keen interest of our Governor, Dr. D. Subbarao, and I thank him for that.

I thank all the distinguished invitees present here for attending the function with great enthusiasm. I thank all my colleagues from the Reserve Bank for their overwhelming participation. I thank the event management team of the Taj Hotel and all other service providers for their support. I thank the liaison officers of the Bank for their cooperation.

Finally, I must thank Adviser K U B Rao and his team from the Department of Economic Policy and Research (DEPR) for meticulously planning every aspect of this programme so well.

Thank you all, once again.