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SAARCFINANCE

Good policy has been essential to our stability: RBI Governor at Governors' Symposium

"Good policy has been essential to our stability", said Dr. Raghuram Rajan, Governor, Reserve Bank of India in his [inaugural speech](#) at the SAARCFINANCE Governors' Symposium held today in Mumbai. For India, undertaking a variety of structural reforms to enhance growth; outlining and adhering to a path of fiscal consolidation to reduce the fiscal deficit; containing inflation through a combination of better food management, a new inflation framework and calibrated monetary policies; and embarking on a cleanup of bad debts in the banking system so as to free bank balance sheets to support growth are elements of what India has practised in the wake of global uncertainties.

The government has also undertaken structural reforms to revive growth, including significant efforts in the agricultural sector to boost productivity through irrigation, insurance, access to markets, a strong push to deregulate business, especially for start-ups, resolve distress in power distribution companies, and an immense effort to expand financial services to the excluded through the provision of bank accounts and direct benefit transfers. Leaving aside the much anticipated Goods and Services Tax reform, a number of other significant reforms had also taken place, including the recent passage of the new Bankruptcy bill, which was likely to speed the resolution of distress tremendously. Moreover, the cleaning up of the process of allocating public resources like spectrum and mines, as well as the process of appointing critical personnel, such as, public sector bank chiefs was one of the most effective reforms undertaken by the government. "This is significantly increasing transparency in our system", the Governor pointed out.

The Governor also talked of four elements of defence against the external imbalances namely, good policies; prudent capital flow management and swap arrangements; preventing extreme forex volatility; and building reasonable forex reserves.

While speaking of good policies in the context of the challenges SAARC countries faced in a globally interconnected world, and lauding the performance of SAARC economies, the Governor said that the region had shown continued resilience in the face of turbulent international markets, maintaining its spot as the fastest-growing region in the world. However, the region was now facing newer challenges arising from uncertainties in other parts of the world. Possible moves by the US Fed, a potential rebound of oil prices, possible Brexit, geopolitical risks in the Middle East and volatility in financial markets due to risk-on or risk-off sentiment were some of the possibilities, he pointed out. Sharp slowdown of the Chinese economy,

according to him though still remained a significant risk for the global economy and the SAARC region. The sharp contraction in China's imports over the past year, for instance, had already led to spillovers through the trade, confidence, tourism and remittance channels and SAARC nations had not been able to avert its impact. More negative externalities could follow as Chinese economy adjusted to a more sustainable path.

Further, China already suffered from the twin-ailment of overcapacity and high leverage. Bad loans in the banking system were likely to grow over current levels and in addition there might be serious weaknesses in the shadow banking system, which could feed back to banks. Both could be significant downside risks as they could have second round effects for SAARC economies. Chinese growth would depend not just on its policies, but also on growth elsewhere in the world.

As second level defences, India has taken measures, such as, being careful about foreign borrowing, especially at the very short term. In addition, government's liberalisation of FDI regulations have resulted in record FDI inflows last financial year. Further, RBI has been moderating periods of extreme volatility in the currency through exchange intervention, though only when the movement is excessive, and increasing access to foreign exchange reserves, including pooling of reserves. India's SAARC swap arrangement with a number of SAARC countries had been drawn on by some to alleviate short term foreign exchange needs, and had hopefully been helpful, the Governor averred.

In conclusion, the Governor said that being conscious of the role the Indian economy plays in influencing growth in other SAARC economies, India has kept the objective of securing and preserving macro-stability at the top of her agenda to avoid any negative externalities and hoped that together the SAARC countries could hopefully be an island of relative stability and co-operation in the turbulent world.

Note for editors:

SAARC¹, as a regional bloc was set up in 1985 with the aim of promoting the welfare of the people of South Asia, to accelerate regional economic growth, strengthen collective self-reliance and contribute to mutual trust, understanding and appreciation of one another's problems in the region. SAARC nations share a common goal of sustainable economic development, and face several similar developmental challenges. In terms of GDP based on purchasing power parity (PPP), SAARC's share in the globe has increased rapidly from 4.0 per cent in 1980 to 9.0 per cent in 2016.

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¹ Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka