

Issues brought out in the discussion

A) Coordination and cooperation in global macroeconomic policy

Issue: What will be RBI's strategy in the absence of a collaborative solution to tackle global imbalances? Reddy: In general, harmonized actions are necessary and there needs to be recognition that the costs of disorderly adjustment will affect all countries. However, it is difficult to envisage what would be the course of action undertaken by the RBI in the event that a collaborative solution does not arise. It all depends upon the particular macroeconomic and international situation facing it. At the same time, there is also a need to consider how the world is different from the days of the Plaza Accord. Financial markets play a greater role in global imbalances than national policies and the transmission of exchange rate into domestic policies is muted. There is a

Issue: Concern relating to increasing asset prices in the Indian economy. Reddy: The combination of rapid increase in asset prices and rapid growth in credit as well as money supply has a potential for financial imbalances, even if inflation is not high. This is recognized and monetary policy is geared to checking these pressures, but it does not take a view on asset prices as such.

Issue: The plans for full liberalization of the capital account and the potential vulnerabilities that could create. Reddy: It is not appropriate to say that a closed economy is less immune to crises. There also exists a threshold beyond which the benefits of capital account liberalization are greater than its risks as far as emerging economies are concerned. The capital account committee in India is revisiting this situation to recommend a roadmap of framework for further liberalization of the capital account, in view of recent experiences.

Issue: The main reasons behind India's success during the last decade. Reddy: India has had a consultative process of reform and current impressive performance is a function of a longer-term process, spanning the last five decades, of institution building and policy evolution. During the 1950s and 1960s, the focus was on institution building. At the same time, during this period and up to the late 1970s, there was also a focus on building self-sufficiency in food stocks etc. During the 1980s, domestic liberalization was implemented, followed by liberalization of