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RBI's work should not dictated by those with little or no technical understanding: Raghuram Rajan in his last speech as governor

By ECONOMICTIMES.COM | Updated: Sep 03, 2016, 05.12 PM IST

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In his last public speech as the RBI governor, Raghuram Rajan batted for central bank's independence, stressing that "multiple layers of scrutiny, especially by entities that do not have the technical understanding", only hampered the bank's decision making.

Addressing a gathering at Delhi's St Stephen's College, Rajan said central banking was not as easy as it seems and it was definitely not about "raising and cutting interest rates".

Rajan argued for operational freedom of the central bank, "albeit invariably in consultation with the Finance Ministry" in matters relating to macroeconomic stability but also said that RBI has to work under a framework set by government and cannot be free of all constraints.

Recalling his predecessor D Subbarao's comments on policy differences with the government, Rajan said he "would go a little further" as he believes that "the Reserve Bank cannot just exist, its ability to say 'no' has to be protected."

"In this environment, where the central bank has to occasionally stand firm against the highest echelons of central and state governments, recall the words of my predecessor, Dr. Subbarao, when he said "I do hope the Finance Minister will one day say, 'I am often frustrated by the Reserve Bank, so frustrated that I want to go for a walk, even if I have to walk alone. But thank God, the Reserve Bank exists,'" the outgoing RBI governor said.

In the interests of macroeconomic stability again, Rajan argued that the governor's rank should be commensurate with his/her position as the most important technocrat in charge of economic policy in the country.

"In a country like India, the RBI governor also has to continuously make the case for the actions the central bank is taking, including the many structural reforms that were underway. Communication was as much about educating as it was about informing, be it with entrepreneurs and borrowers or pensioners or Parliamentarians," he said, adding that public understanding could help ease the way for reforms, as well as increase support for policies.

In an interview to a top channel, Rajan had expressed desire to stay a bit longer but said he could not reach the "right kind of agreement" with the government on extension of his tenure.

"Because of ... unfinished task, I was willing perhaps to stay provided we could reach the right kind of agreement, we didn't. That's where it ended", said Rajan, whose outspoken views on various issues were often seen as being against the views of the government on economic and even non-economic matters.

Rajan's term ends on September 4. Rajan also explained the economic rationale of why the RBI cannot pay special dividend to the government, in addition to the entire surplus being paid out for the last three years.

He explained that paying a special dividend over and above the surplus RBI generated, as had been suggested, was legally not possible. And even if it were legally possible, and even if the Board were convinced a higher dividend would not compromise the credit worthiness of the RBI, this not reduce overall market borrowing by the government, defeating the very purpose of special dividend!.

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