

RBI Governors should speak their mind: Rajan

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Says central bank chiefs have to stand up to pressure from the govt



Former RBI Governor Raghuram Rajan at the launch of his book I do what I do, in Chennai on Tuesday Bijoy Ghosh Bijoy Ghosh

Chennai, September 5:

The RBI Governor is effectively the risk manager of country's economy and is duty-bound to issue warnings about the risks to macroeconomic stability and the growth agenda, said Raghuram Rajan, who demitted office as the central bank chief last September.

"In that risk manager's duty, the RBI Governor sometimes has to speak out and say 'no' to pressures. It is important that this role is understood in the right spirit," he said during the launch of his book here.

Rajan explained that the RBI Governor is the country's most important technocrat, with control over hundreds of billion dollars worth of foreign exchange, the ability to determine the monetary policy, among other powers.

The RBI Governor, unlike other bureaucrats, reserved the right to say 'no' to the government, if he felt its demands were

inappropriate. "You have to say 'no' and it has to be recognised by the government since it is said in the interest of the economy," said the professor of finance at the University of Chicago Booth School of Business.

"So, as a risk manager, sometimes you warn in private and sometimes in public when the broader dialogue goes in the wrong direction. Of course, (if the) government doesn't understand that, and it sometimes creates some amount of misunderstanding," he added.

The government, however, gets to take the final call on policy matters, he clarified.

'Govts didn't interfere'

In a conversation with N Ravi, Director, Kasturi & Sons Ltd, Rajan said: "There was no interference in carrying out my agenda. I had a good relationship with both [UPA and NDA] governments, and I kept them informed." Discussing his book, Rajan said he had structured the contents as five pillars to discuss the focus areas during this period.

They included inflation control, liquidity management, banking system reforms, improving the resilience and depth of the markets, financial inclusion and dealing with distress in the system.

"Substantial progress was made in all those areas. The most progress was made in inflation control, while the least progress was with regard to cleaning up of the banking system and the distress associated with it," he added.

"The RBI was a great professional organisation to associate with and one of the few that has tremendous integrity and capability," he noted.

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