

## 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 need to assess elasticities and externalities.

### Oil surpluses

**Issue: Why oil surpluses of oil exporting countries were much smaller in the 1970s than they are now?** Reddy: Oil producing countries do make rational decision on oil production and export levels. Both importers and exporters are interested in stable prices. It is a very difficult question of how this has not been reconciled. Obviously the oil markets are unique and imperfections need to be explored. The IMF is studying this phenomenon in the light of mandate given by the latest meeting of the IMFC.

### B) Asia

**Issue: The accumulation of reserves in Asia and the need for self-insurance.** Reddy: Self-insurance has been a factor behind the accumulation of reserves by the Asian countries, but only up to a point. The accumulation of reserves has exceeded needs of self-insurance objectives on a judgemental basis in some cases. However, the accumulation may also be linked to exchange rate policies.

**Issue: Whether the appreciation of Asian currencies will lead to deflationary pressures and increase the likelihood of global depression.** Reddy: This depends upon their individual economies, their elasticities and the transmission of exchange rate movements into relative prices.

**Issue: The possibilities for better absorption of regional savings surpluses.** Reddy: There are clear advantages in absorbing these and due thought needs to be given to the appropriate mechanisms. It depends on investment needs, increasing confidence in each other's currencies.

### C) The Indian economy

**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 the external sector in the 1990s.