

BOOK REVIEW

DUVVURI SUBBARAO., “Who Moved My Interest Rate? – Leading the Reserve Bank of India through Five Turbulent Years”, Penguin Publications 2016, pages 323, price Rs. 699/-



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Duvvuri Subbarao, represents India’s highest meritocracy. He spent a lifetime in the IAS as Joint Secretary Department of Economic Affairs, Secretary in the Prime Minister’s Economic Advisory Council and Finance Secretary of India in addition to a stint in the World Bank Washington DC. His served as Governor Reserve Bank of India from 2008-2013 joining the elite list of IAS officers who have served on Central Bank. Duvvuri Subbarao is an inspiration, a common man rising to the pinnacle of administration through sheer dint of hard work and deep commitment. The remarkable humility of Duvvuri Subbarao despite scaling the himalayan heights of administration is reflected all through the book. The book is divided into 16 chapters and an introduction.

The introduction titled “May You Live in Interesting Times” commences with the G-20 meeting on the global economic crisis dated 11th October 2008, in the International Monetary Fund, Washington DC which Duvvuri Subbarao attended as the newly appointed Governor of the Reserve Bank of India. In the midst of Duvvuri Subbarao’s intervention President Bush joins the meeting. Its an amazing feeling to make a speech in the presence of the President of the United States. Duvvuri Subbarao put forward his views cogently and effectively. He said the narrative that emerging markets had decoupled from advanced economies had been dented and the market situation was uncertain and unpredictable for the emerging market economies as the precise channels in which the global contagion would hit emerging markets was not clear.

Chapter 1 of the Book is titled “From Main Street to Mint Road, Appointment as Governor.” Duvvuri Subbarao was appointed as Secretary Department of Economic Affairs and Finance Secretary in April 2007. His ambition was to become the Cabinet Secretary of India, a job within the realm of possibility given his age and seniority in the IAS. However Duvvuri Subbarao was destined for greatness at the Reserve Bank of India. On September 2, 2008, Duvvuri Subbarao was appointed as the 22nd Governor of the RBI, the 11th bureaucrat to don the Governor’s mantle. He was the

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first Finance Secretary to go directly from Main Street to Mint Road without a gap in between.

Chapter 2 titled “Baptism by Fire, Battling the Global Financial Crisis” deals with the advance tremors of the global financial crisis which started going off in the first week of Duvvuri Subbarao joining the RBI. As fear and panic gripped the world’s financial markets, the RBI instituted a slew of measures to ease liquidity both in the money and forex markets. The contagion was perceptible as the benchmark equity index, Sensex collapsed from 13,518 on 16th September 2008 to 9647 by end December 2008. The rupee plunged from Rs. 46.63/ dollar to Rs. 50.52 during that period. The RBI adopted a 3 pronged strategy - to make the system flush with liquidity, to augment foreign exchange liquidity and to drive a policy framework aimed at keeping credit delivery on track and arresting moderation in growth. By April 2009, there were some spring shoots in the advanced economies and credible recovery in the emerging markets.

Chapter 3 titled “Baby Step Subbarao, Combating Inflation” deals with the monetary policy formulation in RBI during his tenure as Governor. In the period 2009 – 2012, prices were rising rapidly and thereafter inflation remained in the 9-10 percent range. The challenge was to exit from a crisis driven easy monetary policy largely by raising interest rates. The rates were increased by 50 basis points on occasion and much of the time in steps of 25 percent. It earned the Governor the moniker of Baby Step Subbarao. Contrary to the media opinion, Duvvuri Subbarao remains the most activist Governor till date, by calibrating the interest rate 23 times, raising it 13 times and cutting it 10 times.

Chapter 4 titled “When the Facts Change, I change My Mind, Do You Endorse Inflation Targeting?” deals with Duvvuri Subbarao’s reservations on inflation targeting. Several countries had adopted inflation targeting on the premise that if the policy makers took care of price stability, financial stability would be automatically assured. Duvvuri Subbarao held the view that the RBI might be locked in a no-win situation on inflation targeting in the face of uncertainties over the government remaining committed to fiscal responsibility, amidst large and volatile capital flows. He was satisfied with a multiple indicator, multiple target approach to guide monetary policy during his tenure.

Chapter 5 titled “Inside the Chakravyuh, the Process behind Monetary Policy Formulation” deals with the processes involved with the various activities in the Reserve Bank as a full service Central Bank. The chapter describes the consultative processes that govern the monetary policy reviews of the Reserve Bank - the meetings with the chambers of commerce, economists, internal strategy meetings, Technical Advisory Committee, and pre-policy interactions with Government. The interactions with Government describe the cordiality in the meetings of the Governor with the Finance Minister and the Prime Minister and the respect the Reserve Bank is accorded in policy formulation.

Chapter 6 titled “Demystifying the Reserve Bank, How Does the Reserve Bank Make a Difference?” deals with Duvvuri Subbarao’s efforts to make the Reserve Bank a knowledge institution with the best practices amongst emerging market central banks demystify the institution so that the larger public understood what it did. A widely

held view of the Reserve Bank is that it is a rigid, wooden-headed monolith, making rules and regulations with little understanding of the realities of India. In his efforts to demystify the Reserve Bank, the Governor through his formal and informal speeches and comments in town hall meetings simplified the language of communication spreading financial literacy in local languages through State School Boards.

Chapter 7 titled “Rupee Tantrums, the Challenge of Exchange Rate Management” deals with the formidable challenges faced by Reserve Bank in Exchange Rate Defense. In 2013, “Taper Tantrums” reverberated around the world. The US Federal Reserve policy to gradually taper the quantitative easing set off capital flight from emerging markets and plunged their currencies to new lows. India also faced domestic structural factors in huge current account deficits of 4.2 percent in 2011-12, 4.8 percent in 2012-13 and over 4 percent in 2013-14 well above the 3 percent sustainable limit established by the Central Bank. Between June 2013 and 2014, the rupee continued to slide with no reversal in sight. The Governor took the decision to deploy monetary policy to sharply tighten market liquidity as a measure of exchange rate defense. The rupee fell from Rs. 61.43/ dollar to Rs. 68.36/ dollar. It was a market reaction contrary to the expectation of the Governor.

Chapter 8 titled “The Signal and the Noise, The Challenge and Opportunity of Communication” deals with the communication strategies of the Reserve Bank of India. The Markets hang on to every word of the Governor, treating every syllable, nuance and twitch of the face as a market clue. Alan Greenspan once famously said “since becoming a central banker, I’ve learnt to mumble with great incoherence. If I seem unduly clear to you, you must have misunderstood what I said.” Ben Bernanke’s press conference in 2011 was the first press conference by a Chairman Federal Reserve in 30 years. The post policy media conferences of Governor Duvvuri Subba Rao and the two-way communication initiated by him through metaphors and humor were quite unique.

Chapter 9 titled “Walking Alone, Autonomy and Accountability of the Reserve Bank” deals with the resilience shown by Duvvuri Subbarao in the decision not to cut interest rates in October 2012. This was despite a press conference held by Finance Minister one day prior to the monetary policy review outlining the government’s fiscal roadmap. The Governor was disinclined to change his decision based on the fiscal roadmap presented by Finance Minister as it was a mere reaffirmation of the targets with no indication of the steps that would be taken to deliver on those targets. The Finance Minister’s famous statement “If the Government has to walk alone to face the challenge of growth, we will walk alone” represents a public show of disagreement between the RBI and Government. On 29th August 2013, Duvvuri Subbarao responded “I do hope 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.”

Chapter 10 titled “Two More Years, Reappointment as Governor in 2011” deals with the extension of tenure of Duvvuri Subbarao by another 2 years. The Government’s decision to extend the tenure Duvvuri Subbarao was considered a reflection of the confidence in the way he has handled the monetary policy and also signaling continuity at a time of turmoil in global markets. Chapter 11 titled “What Does Your Promise Mean, Governor?, Reflections on Currency Management” deals with the

broader questions of interpretation of trust in printing of currency notes by the Reserve Bank. The chapter also discusses the security features of the Indian rupees and efforts made by the Reserve Bank in ensuring that counterfeit currency does not circulate in the system along with the push for plastic currency and shift from cash to electronic systems as India moves to a cashless society.

Chapter 12 is titled “Goldfinger Governor, Foreign Exchange Reserve Management” deals with the purchase of 200 tons of gold from IMF in 2009. The purchase of gold raised the Reserve Bank’s gold holdings from 4.1 percent of forex reserves on 30th October 2009 to 6.7 percent on 6th November 2009. The Finance Minister described the gold stock build up as soothing the outrage, Indians had felt when we had to pledge gold to the Bank of England for borrowing to support our imports in 1991. The Reserve Bank did not see merit in the use of foreign exchange reserves for domestic capital expenditure as it would dilute the Reserve Bank’s ability to defend the exchange rate in times of volatility.

Chapter 13 titled “Keep Your Ear Close to the Ground, The Reserve Bank’s Outreach” deals with an outreach program launched during the platinum jubilee celebrations of the RBI in 2009-10 to demystify the Reserve Bank to the common man. Deputy Governors would watch Banking Correspondents in the field conducting transactions on handheld machines as part of financial inclusion. The outreach programs also included visits by Governor to villages, town hall meetings and a major thrust to financial inclusion.

Chapter 14 titled “Sleeping at the Wheel? Regulation of Non-Banking Financial Companies” deals with the RBI’s regulation of NBFCs’ that perform a valuable function in the financial space. In several cases low-income households lured by the high returns offered by the NBFC deposits lost all their money as the NBFC defaulted on paying the interest or even returning the principal. Duvvuri Subbarao constituted a Working Group to advise on the broad principles that must underpin the Reserve Bank’s regulatory approach to NBFCs. In the backdrop of the Sarada Scam, the emphasis was on greater regulation of NBFCs.

Chapter 15 titled “Footloose in the World of Central Banking, International Meetings and Global Policy Issues” deals with the international agenda pursued by Duvvuri Subbarao. At the Fund-Bank annual meetings he pursued the cause for governance reforms at the IMF, and presented the emerging markets perspectives. At the G20 meetings of finance ministers and central bank governors, he pursued the cause of timely crisis response and post-crisis reforms.

Chapter 16 titled “Moving On, Stepping Down from the Office of Governor” deals with Duvvuri Subbarao stepping down from the post of Governor RBI. How would he like to be remembered? As a Governor whose every decision and action was motivated by one and only one consideration – the larger public interest; as someone who never swerved from the Reserve Bank’s dharma.

A thoroughly enjoyable read.

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