The RBI governor says that a savings glut in developed markets is damaging emerging economies

Monetary policy: RBI governor Raghuram Rajan (right) at 10th convocation of National Institute of Bank Management in Pune on Friday.

Mumbai: Global rules are tilted in favour of developed economies and the onus lies on emerging markets to reframe them to ensure fairness for all, India's central bank governor Raghuram Rajan said in one of his strongest statements of concern about strains in the global economy.

A savings glut in developed markets due to unconventional monetary policies is damaging emerging economies, Rajan said on Friday. If certain other countries were weakening their currencies they would have been labelled manipulators, but there are no such limitations on the use of accommodative policies in advanced economies, he said.

"There is a concern that the rules of the game are not clearly set in the international world," Rajan said. "We have been too quiet in the emerging markets, saying what the developed markets do is best for the global economy."

Rajan's comments come as global finance chiefs prepare to meet in Washington next week and as a new China-led development bank threatens to dilute the clout of existing multilateral institutions. Only six of 24 emerging-market currencies—including India's rupee—have strengthened this year as foreign investors pull money from developing markets before an expected increase in US interest rates amid withdrawal of its record monetary stimulus.

It's a "legitimate concern" that divergent monetary stances may cause "whiplash effects" for economies like India, said Eswar Prasad, an economics professor at Cornell University. "Rajan is espousing a widely held view among emerging market policymakers that advanced economies have for far too long defined and rigged the rules of the game in international finance and global governance to their own advantage," Prasad said.

After near-zero interest rates and bond purchases by the Fed depressed the dollar following the financial crisis of 2008, an economic recovery over the past two years accompanied by withdrawal of stimulus is boosting the greenback and eating into earnings of companies such as Pfizer Inc. That prompted US treasury secretary Jacob J. Lew to warn in February that the US will "oppose and push very hard" against attempts to boost exports by weakening exchange rates.

“They have tried everything new, continuing easy monetary policy, but they still don’t have sustainable growth that they would be happy with,” Rajan said in the speech to graduating students in Pune, near Mumbai.

“So there is something else that is going on in the developed world that one has to worry about.”

The policy of placing domestic mandates above global concerns is “unreasonable”, Rajan said.

International organizations would have been quick to seek “structural reforms” from emerging markets in such a situation where growth is low and stagnant but developed economies are allowed to continue with unconventional policies, he said.

In referencing the savings glut in his speech on Friday, Rajan was invoking a 2005 address by Ben Bernanke, then chairman of the Federal Reserve, in which he blamed a glut in emerging markets for the US current-account deficit. Rajan and Bernanke had a public spat last year on how much coordination is needed between global central banks.

Monetary authorities across the world need to work together and emerging markets need to prepare themselves for another potential bout of volatility once the Fed raises rates, Christine Lagarde, managing director of International Monetary Fund (IMF), warned last month during a visit to India.

A global agreement giving China, India and other emerging markets more clout at the IMF in recognition of their growing economic might has been stalled by the US, the crisis lender’s largest shareholder. Republican lawmakers in Congress have refused to approve the changes, which were proposed by the IMF more than four years ago and are supported by most of its 188 member nations, as well as by the Barack Obama administration.

Seven days before IMF and World Bank officials hold their spring meetings in Washington, Rajan called on emerging markets to have more conviction at global gatherings and work to reform the “rules of the game.”

“In order to be able to argue with conviction, the first thing we have to do is ensure macroeconomic stability in our own country,” Rajan said. **Bloomberg**

Unni Krishnan contributed to this story.