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REVIEW & OUTLOOK

Reforming Delhi

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India's Congress-led government has produced a long list of important-sounding "wise men" reports on economic reform, but has actually accomplished very little. Let's hope the latest addition to the list doesn't get dumped in the dustbin.

Today, the High Level Committee on Financial Sector Reforms delivers its report to Delhi. As two of the authors, Raghuram Rajan and Eswar Prasad, explain here[1], this group was tasked by the government to plan a wholesale reform of India's financial sector. That's different from previous reports, such as the Tarapore Committee, that only looked at specific issues like capital controls.

There's a lot to fix. Some 70% of banks are still state-owned, the central bank has no clear inflation target, capital inflows are restricted, interest rates are heavily controlled and the corporate bond market is a mess. Under these constraints, it's a wonder that India has managed to grow as fast as it has over the past few years. And that's just a partial list of the problems highlighted in the report.

The current government, led by two of the men credited with spearheading the last "big bang" reform in 1991 – Prime Minister Manmohan Singh and Finance Minister Palaniappan Chidambaram – was expected to usher in a new wave of reform. Instead, they've been cut off at the knees by the left-leaning, Congress-led coalition that put them into power.

The authors note there is "little urgency for reforms because India is not in a crisis." But Congress faces an election next year without much to show for its four years in power. That makes it a perfect time for Mr. Singh to get serious about pushing through a major package of financial sector reforms. Happy reading, Delhi.

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