Opening address by

Dr. R. B. Barman

Executive Director, Reserve Bank of India

SEACEN - Irving Fisher Committee – RBI Workshop on

Use of Surveys by Central Banks

<u>on June 27, 2007 at CAB, PUNE</u>

Distinguished guests, delegates, ladies and gentlemen,

A very good morning to all of you. On behalf of the Reserve Bank of India, it is a great pleasure to welcome you here this morning. I wish to express my gratitude and appreciation to SEACEN and Irving Fisher Committee for giving us the privilege of hosting this Workshop on 'Use of Surveys by Central Banks'. I am indeed delighted and honoured to be at this auspicious occasion, in the company of representatives from member countries of SEACEN and BIS, who will, I am sure, share their views and experiences on issues related to surveys conducted by central banks during the course of the Workshop for the symbiotic benefit of the participants.

South-East Asian Tigers have shown us the path that succeeded in pursuing high growth for decades. The lessons learnt from these experiences have become the policy imperatives of other countries and India is no exception. In the past few years, however, India and China have attracted lot of attention from the global community not only because these two countries are among the fastest growing, but also because of their sheer size. This is a very significant development because the changing fortune of the vast population living in these two countries will contribute to equity and welfare, influencing all countries in the region and the world as a whole.

As central bank of a country, our role is to pursue policy to sustain the momentum of non inflationary growth and maintain financial stability. As you all know, this is a highly challenging task, particularly because monetary policy has to be forward looking and the statistics should help in reducing uncertainties about the state of the economy. We need to understand market expectations and possible sources of macroeconomic instability to avoid systemic risks that may result in financial instability. Markets operate sub optimally if there is information asymmetry and structural heterogeneity. The frictions generated in financial markets from such asymmetry and heterogeneity may make policy inefficient and ineffective. This is how we need precise and timely information on various dimensions of the economy for pursuing appropriate policy, enhancing market transparency, effective surveillance, safeguarding against short-term shocks and avoiding inefficient policy response.

There is always a debate between the relative importance of sound economics and provision of comprehensive information. To me it appears that timely availability of quality statistics is as important as good economics going into policy making. Cross country experience shows that as countries progress on development path, the use of quality statistics increases many fold. This is evident from the high demand for high frequency statistics by entities participating in financial market.

We now turn to the role of sample survey in the collection of statistics. As you all know that sample surveys have several unique advantages. They are relatively inexpensive and are useful in describing the characteristics of a large population. No other method of observation can provide this general capability. They can be administered from remote locations using mail, email or telephone. Consequently, very

large samples are feasible, making the results statistically significant even when analyzing multiple variables. Many standardized questions can be asked about a given topic, providing considerable flexibility for analysis. Standardized questions make measurement more precise by enforcing uniform definitions and can ensure comparability. With the advent of internet, electronic survey is becoming a more widely used survey method.

In the conduct of sample survey it is not enough to define objective clearly and unambiguously, use concepts that are validated, provide for quality checks, but also lay great emphasis on design of sample survey. As M N Murthy had put it succinctly, "The theory of sample surveys deals with the procedures for selecting the units to be included in the sample and for estimating the value of the characteristic for the population as a whole on the basis of the data collected for the units in the sample, and with comparing the efficiencies of these procedures with reference to cost and error." The evaluation studies of sample surveys conducted in different countries, being shared in workshop like this one, can be good source of learning on standards for design and implementation of surveys.

Let me highlight some of the features of surveys conducted by the Reserve Bank of India (RBI). The data collected by RBI are broadly used for both evaluation and developmental purposes. So far as the regulatory data of central bank is concerned, collection mechanism is fairly similar to any other central banks. These include various statutory, control and supervisory data, collected through standardized returns, attuned to the need of broad monetary policy issues towards achieving the objectives of growth and price stability. In the field of information generation and analysis we adhere to the international standards and practices. Besides, RBI collects a lot of supplementary information for strategies intertwined with its monetary policy towards realizing its

social goals which are typically beyond the purview of a central bank of a developed country. Such information is, in general, survey based. Briefly, I shall cite some examples over a historical perspective.

All-India Rural Credit Survey of RBI, with 1951-52 as the reference period, provided the very basis in formulating an integrated credit policy for rural credit and to assess the extent of indebtedness of rural households to financial institutions in the organized and unorganized sectors. Findings of this landmark survey subsequently changed the entire landscape of Indian banking and culminated in introducing the world's biggest social banking experiments in the form of rural credit and priority sector lending.

With the introduction of social control on commercial banks in 1968 and subsequent nationalization of major commercial banks in 1969, the Government of India and the RBI gave a shift in the credit policy by extending credit to the hitherto neglected sectors, such as small scale industries (SSI), trade and transport operators, retail trade and small business, etc., which are categorized as 'priority sectors'. To evolve a suitable credit policy in regard to small-scale industries on their key characteristics, such as, investment, finance, value of output, capital structure, employment, etc., RBI conducted during 1977-78 the Survey of Small Scale Industries. Besides, soon after the nationalization, in order to provide a definite shape to the new policy of diversifying the pattern of deposits and credit, the demand for information on various aspects of credit deployment was mounting. A more determined effort at systematizing the reporting of banking data to ensure the availability of fairly comprehensive information with a minimum time lag had become necessary. Accordingly, RBI established a large, possibly one of the biggest in the world, statistical system, called Basic Statistical Returns (BSR) system, covering various aspects of deposits and credit collected at account level on census basis. Basic BSR was supplemented

by sample surveys on issues like debit to deposits accounts, composition and ownership pattern of deposits, etc., which presents information on the changes in economic behaviour and structural shifts in deposits.

Finally, the period after financial liberalization initiated during the early nineties witnessed manifold increase in cross-border transactions. Information on such transactions of some important segments is now collected through surveys. These include: (a) annual survey of foreign liabilities and assets of corporates, mutual funds and insurance companies (excluding banks); (b) coordinated portfolio investments survey of corporates, mutual funds and insurance companies for portfolio investments abroad and (c) survey of unclassified receipts. I may also mention that survey of unclassified receipts forms an integral part of BoP compilation in India.

Let me share some of our experiences on surveys used explicitly in monetary policy formulation. Indicators that are supposed to be highly correlated with the future value of a particular variable of interest are often called leading indicators. The idea is that one or several leading indicators would provide good forecasts of the future value of a desired variable. In practice, there is no evidence in favor of any magical leading indicator that can provide short-term forecasts of major macro variables. In this context, RBI is undertaking a qualitative quarterly survey 'Industrial Outlook Survey' in order to get better insight into the present performance and likely prospects of the private corporate sector in terms of parameters like business performance, output growth, order book, imports and exports, inventory built-up, price situation, profitability and employment. Towards price stability objective, understanding what lies behind measures of inflation, expectations greatly enhance the design and conduct of monetary policy. It also helps to understand what types of institutional arrangements and

communication policies would facilitate the central bank to retain credibility for meeting its price stability objective. In this connection, 'Inflation Expectation Survey' conducted by RBI since September 2005 solicits the inflation expectations from households through quarterly surveys. Our experience demonstrates that there is a bias in respondents' inflation expectation. These results are statistically consistent but may not be valid. In most cases, expectations are more adaptive than rational. I would like to get your views on this issue during the course of the workshop.

Before I conclude, let me talk about two important issues relating to survey data. These relate to quality and error components in-built in a survey process. Organizations like central banks should wary about quality components or characteristics like: accuracy, relevance, timeliness, and accessibility. Timely data are current data. Accessibility, as a characteristic of data quality, refers to the ability of end users to obtain data in the desired forms and formats. Accessibility also implies the data products include adequate documentation and discussion to allow proper interpretation of the survey results in order to achieve comparability, coherence and completeness.

Finally, let me touch upon the issues relating to sources of error in survey data. Sampling error is probably the best-known source of survey error and refers to the variability that occurs by chance because a sample rather than an entire population was surveyed. The reporting of sampling error for survey estimates is extremely important to all statistical agencies, including central banks. The sources of non-sampling error, on the other hand, can be classified as non-response error, coverage error, measurement error, and processing error. The classification of error sources in surveys provides a framework for users of statistical data to develop an understanding of the nature of the data they analyze. An understanding of the limitations of data can assist the

analyst in developing methods to compensate for the known shortcomings of the data. However, as a survey expert, one should design it in such a way that both sampling and non-sampling errors are minimized.

Friends, central banking today is more challenging than ever before and accurate timely information is a key factor for efficacious policy decisions. You are the experts. Central banks look forward to all of you to fill the information and knowledge gap, which is necessary for understanding the effectiveness and conduit of monetary policy. I hope that your knowledge and participation in the Workshop will lead to better understanding, cooperation and communication.

Thank you.