

Central banker missing in action as India escalates war on cash

As India undergoes the world's biggest currency overhaul in decades, one official is noticeably absent: central bank Governor Urjit Patel

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As India undergoes the world's biggest currency overhaul in decades, one official is noticeably absent: central bank Governor Urjit Patel.

The head of the monetary authority has spoken just once

since the government invalidated 86 per cent of currency in circulation in a surprise move on November 8. Mounting cash shortages pushed the Supreme Court to warn of riots, and a powerful bank union called for Patel's resignation after a senior bureaucrat was tasked with firefighting.

"Generally, measures of this sort are carefully planned well in advance, and the public is given plenty of time in advance to adjust," Robert Hockett, who teaches monetary law at Cornell University and advises the New York Federal Reserve, said by e-mail. "It is generally to be expected, and is typically the case, that the actual issuer of the currency, the central bank, plays the leading, if not the sole, role in these matters."

While Patel's low profile was initially seen as a foil for Prime Minister Narendra Modi's high-visibility administration, it risks backfiring as public anger increases. Credibility and autonomy of the Reserve Bank of India is linked to the value investors assign the rupee, which is sliding toward a record low.

Bold move

Earlier this month, Modi banned 500 and 1,000 rupee (\$15) bank notes in a move he said was essential to root out tax evasion and graft. Patel briefed the press soon after, assuring that enough supplies of fresh bank bills would be shared across the country and life would be back to normal by the end of 2016.

Business leaders such as Ratan Tata, interim chairman of India's largest conglomerate, called on peers to support the "bold" move. However, on the streets, authorities were criticized for poor execution. In a nation where 98 per cent of all consumer payments are made in cash, half of the 200,000 cash machines have yet to be refitted to handle the new bank notes. It could take until May to replace all the bills rendered worthless, according to some estimates.

Other experts have been questioning the wisdom in backing Modi's decision to ban the notes. K.C. Chakrabarty, who's held both commercial banking and public policy roles, said he doesn't know how much the Reserve Bank of India was "on board" with Modi's move.

'Benefit of doubt'

It was Patel's 10-member board that came up with the idea to ban the notes, Power Minister Piyush Goyal told lawmakers on November 16.

The RBI's spokeswoman didn't reply to an e-mail seeking comment on the central bank's involvement in the currency overhaul and Patel's absence. The RBI has been issuing periodic statements assuring on the supply of cash.

"I was in charge of currency management and I saw that it doesn't serve the purpose," Chakrabarty, who was deputy governor at the RBI from 2009 to 2014, said by phone from London. "All I can say is the present governor is a very sensible person and he is very new. So I'll give him the benefit of doubt."

Modi dominates

When high-value notes were last scrapped in 1978, then Governor I.G. Patel — no relation to the current chief — attacked the move. When Patel's predecessor Raghuram Rajan was asked in 2014 for his views on demonetization, he said he'd rather have tax reform.

Patel was handpicked by Modi to lead the central bank, after ties with the government deteriorated under the outspoken Rajan. Even before Modi's unexpected currency announcement, Patel was reluctant to step into the spotlight. As one of Rajan's four deputies the past three years, Patel had spoken at just one public event, compared with about two dozen by his predecessor.

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