

Rajan was a steady hand in difficult times

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He has been surefooted in handling inflation, bringing stability to the rupee and tackling banks' bad loans



Mumbai, June 19:

When Raghuram Rajan took charge as RBI Governor on September 4, 2013, he quoted a line from Rudyard Kipling's poem 'If': "If you can trust yourself when all men doubt you, But make allowance for their doubting too..." It appears that Rajan has internalised the philosophy encapsulated by that line.

Now, despite some captains of industry and online petitions backing a second stint for him at the central bank, the genial Rajan chose to trust himself and return to the world of academia when his term as Governor ends on September 4, 2016.

A surprise decision

The Governor's announcement over the weekend took many by surprise. It comes in the backdrop of the government giving no indication whatsoever about the road ahead for him after September 4 even as speculation was rife that it was considering successors, including SBI Chairman Arundhati Bhattacharya, RBI Deputy Governor Urjit Patel and former RBI Deputy Governor Subir Gokarn.

The RBI chief, however, seemed to be game for a second term, going by his statement to the RBI staff. Rajan said that while he was open to seeing developments, including clean-up of banks' balance-sheet, international developments such as a possible exit of Britain from the EU and interest rate moves by the US Fed, through, on due reflection, after consultation with the government, he would return to academia when his term ends.

Rajan believes that inflation is a disease that the country needs to get rid of in order to achieve sustainable growth. "Also, it puts off foreign investors. They don't want to invest in a country in which these inflation differentials are high. And, of course, inflation hurts the common man tremendously as he doesn't have access to an inflation-protected wage unlike many of us in the public sector," he said in August 2014.

Repo rate raised

In his first policy review on September 20, 2013, Rajan upped the repo rate (the interest rate at which banks borrow short-term funds from the RBI) from 7.25 per cent to 7.50 per cent to curb inflationary pressures. After that, he raised the repo rate twice (in October 2013 and January 2014) by 25 basis points each to 8 per cent.

Then Rajan held the repo rate steady for almost a year despite demands from the industry and subtle hints from the Finance Ministry pitching for softer interest rates. The markets perceived him as an 'inflation-warrior'.

From January 2015 till date, the RBI cut the repo rate cumulatively by 150 basis points as inflation, especially as measured by the consumer price index, started trending lower to its comfort zone.

In the last couple of months, BJP Rajya Sabha MP Subramanian Swamy has criticised Rajan for holding interest rates high for too long, which he claimed had stifled growth. He blamed Rajan's actions for the collapse of industry and rise of unemployment.

To be fair to Rajan, he has been surefooted in handling burning issues affecting the economy such as reining in inflation, bringing stability to the rupee, tackling bad loans, promoting financial inclusion and creating financial infrastructure.

He has put in place the necessary framework to address these issues. Now, his successor only needs to keep the momentum going.

To put it in context, the world-renowned economist took charge at the RBI when the rupee was plunging almost daily, inflation was high, and growth was weak.

He hit the ground running by announcing a slew of measures, including constituting a committee to revise and strengthen the monetary policy framework (which later suggested that the nominal anchor or the target for consumer price-based inflation should be set at 4 per cent with a band of +/- 2 per cent around it); encouraging banks to mobilise FCNR (B) dollar funds (\$34.3 billion was mopped up in the September-November 2013 period) and swap them with RBI.

New bank licences

Under Rajan's leadership, the RBI gave out new bank licences (to two universal banks, 10 small finance banks and 11 payment banks) to ensure competition between banks and to attain the goal of financial inclusion. It also promised to put bank licensing on tap.

Rajan came down hard on wilful loan defaulters and bad loans in the banking system.

He emphasised that promoters do not have a divine right to stay in charge regardless of how badly they mismanage an enterprise, nor do they have the right to use the banking system to recapitalise their failed ventures.

This was the starting point for getting banks to clean up their balance-sheets. Towards this end, the RBI came up with guidelines for revitalising distressed assets in the economy and introduced Strategic Debt Restructuring mechanisms to ensure more stake for promoters in reviving stressed accounts and providing banks with enhanced capabilities to initiate change of ownership.

New interest formula

To improve the transmission of policy rates and ensure availability of bank credit at interest rates that are fair to the borrowers as well as banks, the RBI introduced a new methodology for computing interest rates on advances based on the marginal cost of funds with effect from April 1, 2016.

On the day that he took over as Governor, Rajan clearly stated that some of the actions he takes will not be popular.

The Governorship is not meant to win one votes or Facebook 'likes', he said. But he hoped to do the right thing, no matter what the criticism, even looking to learn from the criticism, he added.

When he bids adieu in September, one can say that he has lived up to his reputation of being a forthright Governor who pulled no punches in dealing with an array of subjects including monetary policy, domestic and global economy banking, and socio-political issues.

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