

Urjit Patel may prove to be Rajan redux

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New RBI Governor won't ease up on inflation watch, NPA clean-up

Mumbai, August 21:

Reserve Bank Deputy Governor Urjit Patel is unlikely to pursue policies that are different from those of his boss Raghuram Rajan, whom he will replace as the central bank's chief next month. Like Rajan, Patel will likely stand up to the clamour to cut interest rates every time inflation edges lower.

Patel, who holds a PhD in Economics from Yale University and has had stints with the International Monetary Fund, the Ministry of Finance and the private sector, will take charge as the RBI's 24th Governor on September 6. The appointment, for a three-year term, is a clear signal that the government favours continuity in policy-making at the central bank.

He will assume office at a time when inflation — excluding food and fuel — may trend upwards; repayment of Foreign Currency Non-Resident (B) deposits will begin next month; balance-sheet clean-up of banks' is still ongoing; and international developments such as Brexit may pose some risks in the short term.

Rates will stay for now

Patel, who is a man of few words, had headed the Expert Committee to Revise and Strengthen the Monetary Policy Framework. The panel had recommended adopting consumer price index (CPI)-based inflation, with the target for inflation set at 4 per cent with a band of +/- 2 per cent, as a nominal anchor for monetary policy framework; and vesting monetary policy decision-making in a monetary policy committee (MPC), all of which have been accepted by the government.

Market experts feel Patel is unlikely to dilute his own commitment to rein in inflation — that is, he will not cut rates in a hurry.

Analysts at Nomura said the Centre's decision to appoint Patel as Governor signals its preference for policy continuity and to low inflation, while also looking to protect the RBI's independence.

"Markets were expecting a dovish or neutral candidate to take over as RBI Governor after Rajan. Thus, Patel's appointment is a surprise, because he is generally seen as hawkish, which may dash hopes of aggressive easing, and rightly so, in our view," Nomura said.

Banking reforms on track

There is also unlikely to be any let-up in the clean-up of the banking system.

Thomas Rookmaaker, Director, Asia-Pacific Sovereigns Group, Fitch Ratings, said, "Having served as Deputy Governor in the past three years, Urjit Patel is well-positioned to further institutionalise these policy changes in the period ahead. From a rating perspective, policies are more important than personalities. A central bank governor doesn't need to have a rock star status to be successful in reining in inflation or cleaning up the banking sector," he said.

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